



SASKATCHEWAN

Report of the Provincial Auditor

to the Legislative Assembly
of Saskatchewan

**2003 Report
Volume 3**





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Vision

We envision effective, open, and accountable government.

Mission

We serve the people of Saskatchewan through the Legislative Assembly by fostering excellence in public sector management and accountability.



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December 1, 2003

The Honourable P. Myron Kowalsky
Speaker of the Legislative Assembly
Room 129, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

I have the honour of submitting my *2003 Report – Volume 3*, to be laid before the Legislative Assembly in accordance with the provisions of Section 14.1 of *The Provincial Auditor Act*.

Respectfully yours,

Fred Wendel, CMA, CA
Provincial Auditor

/dd

Our 2003 Reports

In 2003, our Office issued seven other public reports to the Legislative Assembly. Following is a list of those reports. If you wish to obtain copies of these reports, or wish to discuss or receive presentations on the contents of any of these reports, please:

- ◆ visit our website at:

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- ◆ contact our Office by Internet e-mail at:

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Our Reports:

- ◆ *Report to the Standing Committee on Crown Corporations Regarding Disclosure of payee information by CIC Crown corporations and related entities: February 2003;*
- ◆ *Report to the Legislative Assembly of Saskatchewan on the 2002 Financial Statements of CIC Crown Corporations and Related Entities : April 2003;*
- ◆ *Report to the Legislative Assembly of Saskatchewan on the Financial Statements of Crown Agencies for Years Ending in the 2002 Calendar Year: April 2003;*
- ◆ *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan : 2003 Report - Volume 1 (June 2003);*
- ◆ *Annual Report on Operations For the Year Ended March 31, 2003 (June 2003);*
- ◆ *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan : Understanding the Finances of the Government : 2003 Report - Volume 1 (August 2003); and*
- ◆ *Business and Financial Plan for the Year Ended March 31, 2005 (November 2003).*

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Key messages

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Introduction

Through our work, my Office improves the way government agencies manage public resources and their accountability to the Legislative Assembly. We do this by focusing our audits on how agencies manage their risks to achieving what they want to do and on the quality of their public reports. We then report the results of our work to the Legislative Assembly.

The Government delivers its services through nearly 300 agencies. These agencies included departments, Crown corporations, authorities, boards, commissions, and special purpose funds. Appendix 2 of this report lists these agencies. This report covers mainly agencies with March 31, 2003 year-ends. Our 2003 Report – Volume 1 covered mainly agencies with December 31, 2002 year-ends.

For the most part, the 120 agencies covered by this report have adequate practices to manage risks to public resources. That is, the agencies have sound practices to safeguard public resources and have complied with the laws governing their operations. Also, most agencies published reliable financial statements. However, serious problems exist at some agencies. The Government needs to remedy these problems.

Also, many government agencies continue to gradually improve their public accountability. Some agencies have made significant progress. Others have announced their plans for future improvements.

In this chapter, I use two headings to highlight several agencies covered in this report. The two headings are risk management and government accountability. Part B presents the main points for each chapter of this report to provide an overall summary of the report.

Risk management

My Office continues to focus on how government agencies manage risks related to the key forces and trends that affect them. Managing these risks is critical to the effective delivery of government services and maintaining a tax base sufficient to pay for those services. The key forces and trends affecting the Government include population changes,

advancing technologies, economic constraints, globalization, and pressures on the environment.

Government agencies that are well managed have good governance practices. They have a clear plan of what they want to do, they determine the risks that may prevent them from carrying out their plan, and they have strategies to reduce their risks. They also monitor their progress in achieving their plans.

In addition, well-managed agencies tell legislators and the public what they plan to do and how much it should cost. They then report what they actually did and what they spent. Having to answer for what they actually did compared to what they planned to do improves how government agencies manage public resources. It also allows legislators to have an informed debate about whether programs are worthwhile.

Under the headings economic constraints, population changes, pressures on the environment, and advancing technologies, I highlight some of my Office's work related to these key forces and trends.

Economic constraints

One key force facing the Government is economic constraint. There is increasing demand for public services and a continued demand for lower taxes. The Government is always asked to do more with less. Good governance and supervisory practices help agencies respond to this pressure.

Many of our findings in this report relate to poor or improper use of public resources when agencies do not carry out their duties effectively. For example:

- ◆ Some boards of directors have not set direction or properly monitored the actions of senior management.
- ◆ Some agencies have not adequately carried out their duties to supervise agencies that are accountable to them.

Chapter 2—Health reports that the Department generally has good practices for managing public resources.

The Department is leading a major reorganization of the way the Government delivers health services. During the year, the Department began to consolidate the activities of 32 district health boards into 12 regional health authorities. Many of the changes to fully integrate services were underway during the year, but are not yet complete. The Department and the authorities have made good progress to date. We recommend several improvements. These improvements are necessary to deliver effective health services.

To ensure effective delivery of services, we recommend the Department clearly sets out its expectations for service delivery and health outcomes for the authorities. It then needs to train the members of the boards of the authorities, monitor board activities, and take corrective action when necessary.

We also recommend that the board members of the authorities set direction for their authorities, monitor their authorities' performance, and take corrective action when necessary.

We set out six measures to help legislators and the public assess the sustainability of health spending in Saskatchewan. A sound understanding of the health system's finances is important for an informed debate about the issues facing the health system. These issues include the affordability of services and the maintenance of the health system's infrastructure. One of the measures shows that health spending is growing faster than the provincial economy and the consumer price index.

We discuss approaches that the Department uses to manage the costs and quality of medical services. Those approaches relate to promoting evidence-based services, setting public policy, and analyzing the underuse, overuse, and misuse of services. Controlling health costs and ensuring quality services are important to sustain our health system.

Chapter 3—Community Resources and Employment and Chapter 4—Learning report on how these departments provide financial assistance to people. The assistance is available to those people who meet a financial needs test. Both departments have not done sufficient work to ensure that the people receiving assistance are entitled to it.

We also report that Community Resources and Employment needs to follow its child protection practices. The Department needs to ensure that childcare providers are qualified to care for children.

Chapter 5—Liquor and Gaming Authority reports that the Authority has good practices for managing public resources except for its supervision of SIGA's operations. We made several recommendations in 1999 and 2000 to improve Liquor and Gaming's supervisory practices. The most important recommendations are still not implemented.

Those recommendations relate to setting Liquor and Gaming's spending policies for SIGA, monitoring SIGA's compliance with the policies, and the recovery of spending that does not comply with the policies. Liquor and Gaming has not ensured SIGA spends public money with due care.

In this chapter, we also report that SIGA's management of public money has not improved since March 31, 2002. In 2000, we made many recommendations to improve SIGA's practices. At March 31, 2003, most of our recommendations are still not implemented. SIGA continued to spend public money without due care.

We report progress by SIGA near March 31, 2003. SIGA has sent proposed spending policies for many of its activities to Liquor and Gaming for approval. At mid-October, none of the proposed policies were approved because Liquor and Gaming thought they were inadequate. The next step is for SIGA and Liquor and Gaming to agree upon sound policies.

Timely approval of policies is important because of the contract between Liquor and Gaming and SIGA. The contract requires SIGA to comply with Liquor and Gaming's approved practices for managing public money by August 15, 2005. According to the contract, failure to comply could result in SIGA no longer being allowed to operate Liquor and Gaming's slot machines.

Chapter 6—Justice reports that the Department needs to better manage penalties for offences under various laws. Tickets deter the public from disobeying the law. To be effective, tickets must be enforced. For several years, we have reported that Justice should improve its enforcement practices.

Chapter 7—Government Relations and Aboriginal Affairs reports that the Department has good practices for managing public resources except for its supervision of the First Nations Fund and the Northern Revenue Trust Account.

For 2001 and 2002, we reported that the Trustees of the Fund had unacceptable spending practices. The Trustees made payments that were not permitted by law and made other payments without ensuring that the recipients used the money for the purposes set out in the law. Also, we reported concerns with the Department's supervision of the Trustees.

Before 2001, we were denied access to the Fund's records. For 2003, the Trustees have again denied us access to the Fund's records. As a result, we are unable to tell the Assembly whether the Fund's spending practices for 2003 have improved or worsened. The Fund received \$20.2 million from the Department in 2003.

The Department needs better processes to monitor the Northern Revenue Sharing Trust Account and improve its accountability to the Assembly. The improvements to processes and accountability are necessary for the protection of public resources. The Account spent \$16.5 million in 2002.

Population changes

Saskatchewan faces a potential shortage of skilled workers. This presents a risk for the Government and for the economy as a whole. For the last two years, we have focused on workplace safety as well as compensation and rehabilitation of injured workers. We have also started to focus on government agencies' human resource plans including succession plans. In this section, I discuss some of the ways the Government manages this risk.

Keeping the services of skilled workers available

Preventing injuries and rehabilitating injured workers reduces workers' suffering and helps keep the services of skilled workers available. These activities will help moderate shortages of skilled workers. Preventing injuries also saves money.

The Government keeps the services of skilled workers available by requiring a safety monitoring system at Saskatchewan workplaces, providing a safe workplace for its own workers, and ensuring injured workers are suitably rehabilitated and compensated. The Government must manage several risks to accomplish these objectives. It does so through many agencies.

In our 2003 Report - Volume 1, chapters 2, 7, and 8, we discussed how the Department of Health (Health), Department of Labour (Labour), and the Workers' Compensation Board act to improve workplace safety and how they are rehabilitating and compensating injured workers.

Health needed to improve the practices at regional health authorities to reduce back and shoulder injuries to care staff. We recommended improvements. We plan to follow up what the authorities have done to improve practices in 2004.

Labour has established good practices for monitoring the work of occupational health committees. Labour uses the minutes of these committees to help monitor workplace safety.

Chapter 8—Labour reports changes to the Department's practices for helping injured workers appeal decisions of the Workers' Compensation Board. Those changes are beginning to reduce the time injured workers must wait for help with their appeals.

In our 2003 Report - Volume 1, we report that the Workers' Compensation Board is in the process of improving its system for processing the claims of injured workers for rehabilitation and compensation. The Board expects to complete the changes in 2003. The Board incurred expenses of \$260 million in 2002 for rehabilitation and compensation. We are auditing the new practices and will report our results in the spring of 2004.

Human Resource Plans

Public sector agencies need sound human resource plans including succession plans. Succession planning helps to ensure agencies have the right people with the right skills at the right times.

Chapter 5—Liquor and Gaming Authority reports on SIGA's human resource plan. We conclude that SIGA does not as yet have a complete human resource plan. SIGA has parts of a plan and has begun work on the remainder. We make recommendations to help SIGA build its human resource capacity to achieve its strategic plan.

Pressure on the Environment

Chapter 9—Environment reports on how the Department manages forest fires. In 2001, we made several recommendations to improve its practices. Environment has made progress, but it needs to do more to comply with our recommendations.

We discuss our planned audit of Environment's practices for protecting Saskatchewan's air quality. We set out the criteria we will use to assess Environment's practices. Environment agrees with the criteria. We plan to report the results of our audit in the spring of 2004.

Advancing technology

Advances in technologies have a large impact on the risks that government agencies face.

Computer systems and networks bring new risks to the accessibility, security, integrity, and confidentiality of information that agencies use to manage. For information to be accessible, agencies must have contingency plans to operate if their systems fail.

Chapter 5—Liquor and Gaming Authority and *Chapter 6—Justice* report the need to prepare good contingency plans. We have reported for the last five years that these agencies needed to prepare these plans. Unless they take action, these agencies face an increased risk that they will lose essential information, or incur increased costs.

Government accountability

My Office continues to focus on improving the Government's accountability to the Legislative Assembly. The ability of the Assembly to hold the Government accountable is key to good government.

Three significant events have occurred to improve the Government's accountability since our last report to the Assembly. I discuss these improvements under the headings: Legislative Assembly, Crown Corporations Committee, and Government agencies.

Under the heading Cabinet, I discuss the need to improve the Government's accountability for its financial performance.

Legislative Assembly

The Legislative Assembly changed the law to improve accountability for the costs and delivery of health services. The law creates a direct reporting relationship between the Assembly and regional health authorities. The laws governing the authorities require each of them to give the Assembly an annual report on their services as well as their financial statements. This is important because the authorities spend most of the money that the Government spends on health services.

In the past, health districts spent most of the money that the Government spent on health services. The health districts did not give their annual reports and financial statements to the Assembly.

The regional health authorities gave their first reports and financial statements to the Assembly during the summer of 2003. Legislators now have more information to hold the Government accountable for health spending and the results of that spending.

Chapter 2—Health discusses shortcomings with the information that the authorities provided. For example, the authorities gave the Department lists of persons (payees) who received money from the authorities and the amounts they received, but the Department did not give the lists to the Assembly. Also, three authorities gave the Assembly financial statements that were not reliable.

Crown Corporations Committee

In June 2003, the Standing Committee on Crown Corporations (Committee) recommended that Crown Investments Corporation (CIC) and its related corporations disclose additional information about persons

(payees) who receive money from these corporations and the amounts they receive.

For many years, my Office has reported the need for these corporations to improve their accountability by providing more payee information to the Assembly. We congratulate the Committee for making this important improvement to the accountability of Crown corporations.

The Committee's recommendation is important because:

- ◆ It reminds these government officials that that they are spending public money;
- ◆ It adds rigour to decision making as it ensures those that spend public money know that their use of that money will be public; and
- ◆ It ensures that legislators and the public know who has received public money.

We expect that CIC and its related corporations will disclose the additional information to the Committee in the spring of 2004. We will report if we have any concerns with the information the corporations provide.

Government agencies

In 2003, the Department of Finance issued guidelines for improving annual reports incrementally over the next few years. It based the guidelines on the most current Canadian principles for annual reports of public sector agencies. The guidelines are based on a publication by CCAF-FCVI Inc. We commend the Department for using the CCAF's principles. We encourage all government agencies to use these guidelines to improve their reports.

In Chapter 13—Annual reports assessments—Departments, we report on our assessment of the 2003 annual reports of 17 government agencies. The agencies gave these reports to the Assembly in the summer of 2003. These agencies have complied with the Department of Finance's guidelines for 2003 annual reports.

Legislators and the public now have better information to judge the performance of these agencies. We will continue to monitor how agencies improve their annual reports.

Cabinet

The Government continues to focus discussion about its financial performance on the planned and actual results of one fund called the General Revenue Fund. The Government uses that fund to pay for some of its services. That fund excludes about 40 per cent of the Government's revenue and spending. *The Balanced Budget Act* reinforces this narrow focus by basing the requirements of the Act on only that part of government revenue and spending covered by the General Revenue Fund.

By using the General Revenue Fund as the basis for discussion about its financial performance, the Government obscures its true financial performance.

The focus of the Government's discussion about its financial performance should be based on all of the Government's revenue and spending. Similarly, if the Assembly wants balanced budget laws, we suggest that those laws should be based on the financial performance of the entire Government. *In Chapter 10—Finance*, we discuss our concerns with the General Revenue Fund financial statements as well as the Government's budget.

We are pleased that, in March 2003, the Government announced it will present a budget for the entire Government as part of its 2004-05 budget package. The Assembly should consider making corresponding changes to laws dealing with the budget and balancing the budget to focus discussion on financial performance based on the financial affairs of the entire Government. Making these changes will improve the Government's accountability to the Assembly.

Acknowledgement

The dedicated efforts of staff of this Office are essential for the continuing achievement of its responsibilities. The knowledge and commitment of

our staff make this report possible. A list of staff is set out in the following exhibit.

Exhibit

My colleagues at the Office of the Provincial Auditor for Saskatchewan are:

Ahmad, Mobashar
Anderson, Mark
Atkinson, Brian
Bachelu, Gaylene
Boechler, Danielle
Borys, Angèle
Brezinski, Curtis
Calder, Chantara
Clemett, Tara
Creaser, Phil
DeCorby, Michelle
Deis, Kelly
Dickin, Deann
Duran, Jason
Duran, Joel
Eger, Leanne
Emond, Candice
Ferguson, Judy
Grabarczyk, Rod
Harasymchuk, Bill
Hartley, Tyron
Heffernan, Mike
Huard, Brenda
Hungle, Angie
Jersak, Rodd
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Lindenbach, Michelle
Lowe, Kim
Martens, Andrew
Montgomery, Ed
Nyhus, Glen
Oldershaw, Mark
Ottenbreit, Stacey
Paul, Charlene
Paul, Kent
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Schell, Doug
Schiller, Rita
Schwab, Amy
Schwab, Victor
Shorten, Karen
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Walker, Sandra
Wandy, Jason
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Compilation of main points

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Chapter 2 – Health

Part A of this chapter sets out the results of our audits of the Department and its Crown agencies. The Department needs better reports from regional health authorities (RHAs) to hold them accountable for their annual spending of \$1.8 billion. The Department does not have a capital asset plan to manage its \$900 million in capital assets. The Department did not give the Legislative Assembly the lists of persons (e.g., employees, suppliers) who received money from each RHA and the amounts the persons received.

Part B sets out six financial measures that help the Legislative Assembly and the public to assess the sustainability of health spending. A sound understanding of health spending is important for an informed debate about the health issues facing Saskatchewan. Those issues pertain to the affordability of programs and services and the maintenance of Saskatchewan's health care infrastructure of buildings and equipment.

Part C describes the results of the audits of the 12 regional health authorities (RHAs). Directors of RHAs need to improve how they set direction, monitor performance, safeguard public resources, comply with the law, and ensure adequate accountability to the Legislative Assembly.

Part D explains some of the key risks to the quality and cost of medical services. It also highlights how the Department manages these risks, including promoting evidence-based best-practice services; setting public policy; and analyzing medical services. In the future, we plan to audit the Department's processes to manage those risks.

Chapter 3 – Community Resources and Employment

The Department of Community Resources and Employment is a large, complex agency that spent \$607 million delivering its programs.

The Department did not adequately follow its rules and procedures to ensure that it spent all public money for the purposes intended by the Legislative Assembly.

For social assistance payments, the Department needs to improve its compliance with its established procedures to ensure that only eligible

clients receive assistance and that they receive the correct amount of assistance (e.g., the Department must strengthen its verification of the continued eligibility of clients to receive assistance).

For programs that Community-Based Organizations (CBOs) deliver, the Department should strengthen its assessment of the CBOs' progress in achieving the Department's operational objectives. To do this, the Department needs to encourage CBOs to submit timely and complete performance reports.

For children in its care, the Department must follow its rules and procedures to ensure that it protects children and that payments to care providers are authorized (e.g., the Department needs to ensure that care providers are qualified to care for the children).

Chapter 4 – Learning

This is the Department of Learning's first year of operations. It administers programs previously delivered by the former departments of Education, Post-Secondary Education and Skills Training, and Municipal Affairs and Housing. It has responsibility for the provincial learning sector.

The learning sector is large and complex. During 2002-03, the Department provided educational agencies with over \$1 billion. In addition to this money, educational agencies raise significant revenues from various sources (e.g., property taxes, tuition fees, research grants). This chapter sets out the need for better reporting on performance for various levels within the learning sector.

Legislators need information on the learning sector to gain a better understanding of who is accountable to whom, for what, and by when. The chapter notes that the Department is developing a learning sector plan with its education partners. Once finalized, the Department expects to report publicly against it. We look forward to this.

The Department, legislators, and the public need better performance information from various educational agencies. While the chapter notes progress towards better performance reporting, it calls for further progress.

For example, boards of school divisions spend over \$1 billion. These boards administer and manage the 99 school divisions. While the financial statements of school divisions are improving, they are not yet prepared using rigorous accounting rules. Other local governments such as municipalities do so. Rigorous accounting rules ensure financial statements are consistent, reliable, and comparable. The Department must help the school divisions move forward in this area.

Finally, the chapter notes two programs where the Department needs better processes to ensure only eligible persons receive aid in the correct amount – Saskatchewan student loan and provincial training allowances.

Chapter 5A – Liquor and Gaming Authority

Saskatchewan Liquor and Gaming Authority (Liquor and Gaming) regulates the Saskatchewan beverage liquor and gaming industries. It also operates retail liquor stores, video lottery terminals (VLTs), and owns and manages slot machines at Saskatchewan Indian Gaming Authority's (SIGA) casinos.

During 2003, Liquor and Gaming continued to work towards setting spending and casino operating policies for safeguarding public money under SIGA's control. However, progress is slow. So far, Liquor and Gaming has approved only a few of SIGA's spending policies such as promotion and sponsorship. Near the end of the year, or shortly after, SIGA proposed most of its spending and operating policies to Liquor and Gaming. At mid-October 2003, Liquor and Gaming has not approved any of these policies. Management told us that Liquor and Gaming has not done so because it asked SIGA to revise the policies.

In our 2000 Fall Report – Volume 2, we said Liquor and Gaming should recover any of SIGA's expenses that are not reasonable (i.e., those expenses that do not comply with policies that Liquor and Gaming approved for SIGA). During the last two years, Liquor and Gaming audited SIGA and identified expenses that did not comply with the approved policies. However, Liquor and Gaming has not recovered those expenses. Liquor and Gaming needs to establish a process to recover expenses that do not comply with the approved policies.

In May 2003, Liquor and Gaming told the Standing Committee on Public Accounts that it expects to implement all of our past recommendations by Spring 2004.

Chapter 5B – Saskatchewan Indian Gaming Authority Inc.

Under the 2002 Framework Agreement and the 2002 Casino Operating Agreement, Saskatchewan Indian Gaming Authority Inc. (SIGA) manages the slot machines in its four casinos for Saskatchewan Liquor and Gaming Authority (Liquor and Gaming). Liquor and Gaming decides the policies for operating the casinos. It expects SIGA to propose policies for Liquor and Gaming's approval.

At March 31, 2003, SIGA has not yet fully implemented all of our past recommendations. As a result, SIGA continues to make payments without due care. However, it has worked actively to propose policies to deal with our past recommendations. Near the end of the year or shortly after, SIGA's Board approved most of SIGA's new proposed policies. The next step for SIGA is to propose to Liquor and Gaming the rest of the policies and then get Liquor and Gaming's approval for all of the policies. SIGA can then ensure its staff understand and follow those policies.

Both, the Framework Agreement and the Casino Operating Agreement require SIGA to establish and comply with Liquor and Gaming approved policies for the operation of the casinos by August 15, 2005. SIGA faces a challenge to complete and implement all of the Liquor and Gaming's policies by August 15, 2005. If SIGA does not meet this condition, Liquor and Gaming may not allow SIGA to continue to operate Liquor and Gaming's slot machines.

SIGA needs to move quickly and get Liquor and Gaming's approval for spending and casino operating policies. It can then begin implementing those policies during 2004. We will assess the new policies and SIGA's compliance with those policies in 2004.

Chapter 6 – Justice

In this chapter, we set out the results of our audits of the Department of Justice and the agencies it manages for the year ended March 31, 2003.

The Department needs to have better processes to track, enforce, and collect fines. The Department does not know if it has enforced all fines and charges. This lack of adequate rules and procedures could result in the Department not achieving its goals of safer communities and upholding the rule of law.

The Department needs an adequate contingency plan for its information technology systems. Without such a plan, the Department risks missing commitments, delaying decisions, and losing essential data.

The Department relies on its internal auditor to provide it with information on the effectiveness of the Department's processes to safeguard public resources and ensure that it complies with the law. The Department should focus the audit work on the processes and transactions where the Department is at greatest risk of loss of public money or spending money for unintended purposes.

We also report a follow-up of our recommendations in our 2002 Fall Report – Volume 2 of our audit of the Department's capital assets plan. We found that the Department now has adequately implemented our recommendations for its capital assets plan.

Chapter 7 – Government Relations and Aboriginal Affairs

This is the first year of operation for the Department as Government Relations and Aboriginal Affairs. Effective April 1, 2002, its responsibilities were expanded to assume the programs of the former Department of Intergovernmental and Aboriginal Affairs and the municipal programs of the former Department of Municipal Affairs and Housing. The Department is now responsible for overseeing two funds and three agencies.

In general, the Department has good practices to manage most of its activities with two exceptions. These exceptions are the adequacy of its oversight of the First Nations Fund and Northern Revenue Sharing Trust Account and monitoring of money provided to community development corporations.

We continue to report that the Department does not have adequate processes to know if the \$20.2 million it provided to the First Nations Fund was used as required by law. In addition, the Trustees of the First

Nations Fund have denied us access to the Fund's records. As a result, we cannot audit the Fund for the year ending March 31, 2003. Also, we cannot report if the Trustees have fixed the significant problems we found in 2001 with their spending practices.

On August 1, 2003, the Legislative Assembly changed the law governing the Fund. The changes allow the Minister of Aboriginal Affairs to pay public money to a different entity called the First Nations Trust. This entity is not a Crown agency. As such, it is not accountable to the Legislative Assembly or subject to audit by our Office.

Chapter 8 – Labour

As with many other departments, 2002-03 was a year of change for the Department of Labour. It worked to implement the Government's accountability framework. In addition, its new management team made a number of key changes to its processes.

We report that the Department had adequate processes to safeguard public resources and comply with the law. Also, we report on our examination of a key aspect of the Department's operations—how it assists injured workers with their claims for compensation from the Workers' Compensation Board.

During 2003, the Department began to reduce the significant length of time workers must wait for assistance. In addition, it made other significant changes in its processes to assist injured workers.

The Department needs to set clear performance expectations and improve its processes to monitor performance. It should align resources to meet the performance expectations it establishes.

We look forward to reviewing future progress in this key area.

Chapter 9 – Environment

The Department needs to improve its internal reports to monitor its activities and follow its established processes to properly protect its capital assets from loss or theft. It also needs to strengthen its internal audit function and prepare a contingency plan to recover from computer

system failures or destruction. Also, the Department should prepare a report on the operations of its special purpose funds and make that report public.

The Department has made progress towards implementing our recommendations to improve its management of forest fires. However, it needs to do more work to improve its processes for preparing and reporting on its fire prevention program. It also needs to ensure it has suitable infrastructure for detection and suppression of forest fires.

Next year, we will examine the Department's processes to regulate air emissions that originate in the Province. During 2003, we completed our research and established the criteria that we will use to do this work. The Department agreed the criteria are reasonable and attainable. We will report the results of our assessment in a future report.

We continue to report that the Operator Certification Board needs better processes for recording application fees. Because the Board does not know if it recorded all the application fees received, we cannot determine whether the Board's financial statements are reliable. We also report that the Board should prepare a financial plan for its operations.

We continue to recommend that the Saskatchewan Watershed Authority set appropriate security policies and procedures for its information technology systems and data. Also, the Authority needs to improve its annual report.

Chapter 10 – Finance

In this chapter, we report the results of the audit of the Department of Finance (Finance) and the entities it controls.

The General Revenue Fund's (GRF) 2003 financial statements are not reliable. They do not record the GRF's pension liability of \$4 billion, and they understate the year's pension costs by \$24 million. The statements also inappropriately record an \$82 million transfer to the Fiscal Stabilization Fund as an expenditure and \$58 million as loans receivable from Crown corporations. As a result, Finance's accounting practices are not in accordance with generally accepted accounting principles for the public sector.

We have significant concerns with the GRF financial statements because the Government uses the GRF's annual surplus or deficit as one of its key performance indicators. In March 2003, the Government announced it would present a summary financial plan for the entire Government as part of the 2004-05 budget package. We are hopeful that the Government will report on its performance using this summary financial plan together with its summary financial statements, rather than using the GRF statements.

Finance did not comply with the reporting required by *The Balanced Budget Act*. Finance should have prepared the annual update report using accounting policies in place at the start of the four-year plan. Instead, beginning in 2003, Finance used different accounting policies for education capital projects to prepare the annual update report. As a result, in the annual update report, operating spending is understated and the cumulative surplus is overstated. In addition, the current balanced budget legislation only focuses on balancing the financial results of the GRF. If it is Government policy to have balanced budget legislation, the Government should consider legislation based on balancing the financial results of the entire Government.

Chapter 11 – Agriculture, Food and Rural Revitalization

In this chapter, we continue to report our concerns with the reliability of the financial statements of the Saskatchewan Agricultural Stabilization Fund and the Agri-Food Innovation Fund. In our opinion, money transferred to these Funds from the General Revenue Fund is not being accounted for properly. We continue to await the results of a project undertaken by The Canadian Institute of Chartered Accountants (CICA) on government transfers. We expect this project to clarify the accounting standards in this area and address the matters we raise in this chapter.

This chapter also includes the results of our audits of the Department, its special purpose funds, and its Crown agencies. We concluded that they had adequate processes to safeguard public resources and they complied with authorities governing their activities. Also, with the exception of the two funds noted above, their financial statements are reliable.

Chapter 12 – Reporting on infrastructure—STC and SPMC

Government infrastructure includes a wide range of physical assets used to provide public services, such as transportation, communication, and energy. In Saskatchewan, some of the Government's key risks relate to public infrastructure. Factors contributing to these risks are advancing technology, a shifting population base, and an aging infrastructure. Costs to purchase, operate, and maintain infrastructure are significant.

Legislators, managers, and the public require information about how the Government manages these risks. Good information supports sound decisions. It also helps the public to understand those decisions.

In this chapter, we report on the adequacy of information given to the public by two agencies with significant infrastructure—Saskatchewan Transportation Company (STC) and Saskatchewan Property Management Corporation (SPMC).

STC provided the public with good information about its vehicles, but needs to provide further information about its facilities. SPMC needs to expand its information about its facilities and vehicles. Using the Government's accountability framework, SPMC expects to improve information about its infrastructure over the next few years. With better information, legislators and the public will be able to assess whether these corporations manage their infrastructure appropriately.

Chapter 13 – Annual reports assessments—Departments

We are pleased that the Department of Finance has recently established guidelines for preparing the annual reports for all departments and Treasury Board Crown corporations. The guidelines contain a four-year implementation schedule, recognizing that improved public reporting takes time and resources.

The guidelines are based on sound performance reporting principles that will enable government agencies to effectively report their progress in achieving their plans.

Our assessment of the annual reports of all departments and three Crown agencies for the year ended March 31, 2003 showed that the annual reports comply with the content requirements of the Department of Finance's reporting guidelines. The annual reports contain more and better performance information than previous reports. They provide better information to help the Legislative Assembly and the public to assess the agencies' performance.

Chapter 14 – Culture, Youth and Recreation

The Government created the Department in 2001 and expanded its responsibilities in 2002. The Department's second year of operation was 2002-03.

In this chapter, we cite examples where the Department's processes did not operate as expected. This resulted in errors in its accounting records. We identify the need for the Department to better document its administrative policies and procedures. Documented policies and procedures help staff carry out their duties appropriately and consistently.

Chapter 15 – Saskatchewan Property Management Corporation

In this chapter, we report that the Saskatchewan Property Management Corporation (SPMC) has made progress in developing a disaster recovery plan. Many government agencies rely on the continuity of SPMC's operations to deliver their services. A disaster recovery plan would help to ensure the continuity of SPMC's operations in the event of a disaster.

In addition, SPMC provides government agencies with accommodation and transportation services. To provide these services, it uses key infrastructure consisting of buildings, vehicles, and aircraft. Legislators and the public need information to know whether SPMC is properly managing its infrastructure. In this chapter, we note SPMC needs to improve the information it makes public about its infrastructure.

Chapter 16 – Highways and Transportation

This chapter describes the key risks that the Department of Highways and Transportation (Highways) must manage well to be successful. Highways must:

- ◆ adapt to changing demands placed on the transportation system;
- ◆ identify and balance the transportation needs of Saskatchewan residents;
- ◆ operate and preserve the transportation infrastructure system; and
- ◆ obtain sufficient resources and effectively manage the use of these resources to meet Saskatchewan's long-term transportation needs.

We did this work to help Members of the Legislative Assembly and the public understand and assess the key risks facing Highways. We encourage Highways to report on those risks and its strategies to manage them.

This chapter also includes the results of our audit of Highways for the year ended March 31, 2003. We concluded that Highways had adequate processes to safeguard public resources, complied with authorities governing its activities, and prepared reliable financial statements for its special purpose funds.

Chapter 17 – Board of Internal Economy

This chapter describes our audit conclusions and findings for the Board of Internal Economy for the year ended March 31, 2003. For the most part, the Board is well managed and complying with the law. However, the Board needs to make further improvements in two areas.

First, the Board needs to approve the plans and reports it uses to make decisions. The Board needs to ensure that the reports it receives provide the information it needs to assess performance.

Second, the Board needs to prepare an annual report on its operations. An annual report is a necessary accountability document for all public sector agencies.

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Main points

Part A of this chapter sets out the results of our audits of the Department and its Crown agencies. The Department needs better reports from regional health authorities (RHAs) to hold them accountable for their annual spending of \$1.8 billion. The Department does not have a capital asset plan to manage its \$900 million in capital assets. The Department did not give the Legislative Assembly the lists of persons (e.g., employees, suppliers) who received money from each RHA and the amounts the persons received.

Part B sets out six financial measures that help the Legislative Assembly and the public to assess the sustainability of health spending. A sound understanding of health spending is important for an informed debate about the health issues facing Saskatchewan. Those issues pertain to the affordability of programs and services and the maintenance of Saskatchewan's health care infrastructure of buildings and equipment.

Part C describes the results of the audits of the 12 regional health authorities (RHAs). Directors of RHAs need to improve how they set direction, monitor performance, safeguard public resources, comply with the law, and ensure adequate accountability to the Legislative Assembly.

Part D explains some of the key risks to the quality and cost of medical services. It also highlights how the Department manages these risks, including promoting evidence-based best-practice services; setting public policy; and analyzing medical services. In the future, we plan to audit the Department's processes to manage those risks.

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Introduction

The Department of Health's mandate is to protect and improve the health of Saskatchewan people. To do this, the Department provides policy direction, direct services, and funding to health providers and health agencies.

Government spending on health

For the year ended March 31, 2003, the Department received \$2.3 billion from the General Revenue Fund and spent this money on its programs. The Department also raised revenue of \$16 million. The Department's annual report contains information about the Department's revenues and expenses (annual report available at <http://www.health.gov.sk.ca/>).

Table 1 shows total health revenues of \$2.59 billion by source for the year ended March 31, 2003. Table 2 shows total health costs of \$2.61 billion by program for the year ended March 31, 2003. The costs in Table 2 do not include health services paid directly by the Federal Government, nor the costs that individuals and private sector organizations pay directly for health services.

Crown agencies

The Department is responsible for the following Crown agencies with March year-ends.

12 Regional Health Authorities (see Chapter 2C – Regional health authorities)

Board of Governors, Uranium City Hospital

Health Quality Council

Health Services Utilization and Research Commission (wound up on January 31, 2003)

Saskatchewan Association of Health Organizations

Saskatchewan Cancer Foundation

Saskatchewan Health Information Network

Saskatchewan Health Research Foundation

St. Louis Alcoholism Rehabilitation Centre

Table 1

Health Revenues by Source for the year ended March 31
(in millions of dollars)

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
General Revenue Fund (GRF)	\$ 2,343	\$ 2,200	\$ 2,076	\$ 1,956	\$ 1,789	\$ 1,677	\$ 1,608	\$ 1,555
Service fees revenue	113	110	109	99	97	99	95	94
Transfers from other governments	18	28	23	21	21	19	17	24
Ancillary revenue	22	20	18	17	16	15	15	15
Donations	18	15	17	12	16	15	9	12
Investment income	7	9	11	11	9	9	10	11
Other	<u>69</u>	<u>43</u>	<u>38</u>	<u>43</u>	<u>55</u>	<u>28</u>	<u>42</u>	<u>26</u>
Total revenues	<u>\$ 2,590</u>	<u>\$ 2,425</u>	<u>\$ 2,292</u>	<u>\$ 2,159</u>	<u>\$ 2,003</u>	<u>\$ 1,862</u>	<u>\$ 1,796</u>	<u>\$ 1,737</u>

Table 2

Health Costs by Program for the year ended March 31
(in millions of dollars)

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Acute Services	\$ 1,013	\$ 945	\$ 864	\$ 832	\$ 713	\$ 657	\$ 625	\$ 537
Supportive care services	442	439	414	382	358	332	336	371
Medical services and education	446	421	401	384	392	384	353	346
Prescription drugs	173	156	141	128	115	98	94	93
Home based services	93	91	91	86	79	76	68	58
Provincial health services	89	86	78	64	64	59	49	65
Mental health services	68	63	58	55	51	46	42	40
Community health services**	74	56	53	52	50	44	39	31
Rehabilitation services**	38	54	43	44	39	37	38	36
Emergency response services	38	40	35	25	22	21	21	22
Health improvement initiatives	49	25	27	25	25	29	26	77
Administration	28	26	20	35	25	25	25	20
Ancillary	17	14	12	12	11	10	9	9
Alcohol and drug services	15	15	13	13	11	9	6	5
Other	<u>27</u>	<u>46</u>	<u>31</u>	<u>26</u>	<u>28</u>	<u>13</u>	<u>43</u>	<u>27</u>
Total costs	<u>\$2,610*</u>	<u>\$2,477</u>	<u>\$2,281</u>	<u>\$2,163</u>	<u>\$1,983</u>	<u>\$1,840</u>	<u>\$1,774</u>	<u>\$1,737</u>

Source: *Public Accounts: Volume 2: Details of Revenue and Expenditure* (to view a copy of this report, see <http://www.gov.sk.ca/finance/paccts>) and the March 31, 2003 financial statements of the RHA Health Boards and other government health agencies.

* The Government's summary financial statements (SFS) for the year ended March 31, 2003 show health costs of \$2,558 million, a difference of \$52 million from the total health costs in Table 2. This difference is due to: 1) differences in accounting policies for tangible capital assets, inventories, and regional health authority foundations; and 2) inter-entity expense eliminations and adjustments within the SFS not recorded in the health costs in Table 2.

** The Department of Health has changed the classification of certain expenses in 2003. It is not practicable to restate prior years expenses.

Comparable health indicators report

On September 30, 2002, the Department issued a report on 61 health indicators, entitled: *Saskatchewan Comparable Health Indicators Report* (Indicators Report). The Indicators Report (available at <http://www.health.gov.sk.ca/>) provides new and vital information on the performance of Saskatchewan's health system. The Indicators Report includes a comparison of the performance of Saskatchewan's health system with the health systems in other Canadian jurisdictions.

The Indicators Report helps readers to understand the effect of health services on the health and well-being of Saskatchewan residents. The Legislative Assembly and the public need to know that the Indicators Report is reliable and comparable with other jurisdictions. We worked with all legislative auditors in Canada to ensure that we each provide consistent audit assurance based on professional standards. Our auditor's report on the reliability of the Indicators Report is included in the Indicators Report.

All Ministers of Health in Canada have agreed to prepare comparable health indicators reports again in 2004. We plan to audit Saskatchewan's 2004 indicators report.

Our audit conclusions and findings

We have completed the audits of the Department of Health and the Crown agencies listed earlier except for the audits of Board of Governors, Uranium City Hospital and the Saskatchewan Association of Health Organizations. We will report the results of these audits in a future report.

We report the results of the Department and other agencies below except for our audits of the 12 regional health authorities, which we report in Part C – Regional Health Authorities.

In our opinion, for the year ended March 31, 2003:

- ♦ the financial statements for the agencies listed earlier are reliable:

- ♦ the Department and its agencies had adequate processes to safeguard public resources except for the matters reported in this chapter; and
- ♦ the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing and investing except for the matters reported in this chapter.

Supervisory controls need improvement

The Department needs to strengthen its supervisory controls over its Crown agencies.

The Department must ensure that its Crown agencies are achieving the Department's objectives. To do this, the Department needs to supervise the performance of these agencies.

The Department's supervisory controls are not adequate in the following areas.

Accountability of regional health authorities to the Department

For several years we have recommended that the Department:

- ♦ approve the former district health boards' (DHBs) performance plans before the fiscal year begins (April 1);
- ♦ receive complete and timely information to ensure that the public money entrusted to DHBs is used properly; and
- ♦ improve its service agreements with DHBs to ensure the appropriate use of public money.

In January 1999, the Standing Committee on Public Accounts (PAC) agreed with our recommendations.

In 2002, the Government amalgamated the 32 DHBs into 12 regional health authorities (RHAs). During the past year, the Department has

made good progress in implementing our recommendations. The Department has worked with the RHAs to:

- ◆ document the accountability relationship between the Department and the RHAs. *The Roles and Expectations of the Minister of Health and Saskatchewan's Regional Health Authorities* sets out the roles, responsibilities, and authority of each party. This document sets expectations for the Minister and the RHAs including strategic planning, performance management, and monitoring and reporting.
- ◆ set direction for each RHA by documenting the Department's long-term goals.
- ◆ prepare an annual *Accountability Document* for each RHA prior to the beginning of the RHA's fiscal year (April 1), that contains:
 - the RHA's annual budget;
 - programs and services to be delivered by the RHA;
 - the measures the RHA is to use to show its progress in achieving the Department's objectives;
 - the key control processes the RHA must have to meet the Department's objectives; and
 - performance reporting requirements for RHAs.

The performance measures and reporting requirements for RHAs are still under development. We are pleased with the progress the Department and the RHAs have made in establishing a framework for the management and accountability of RHAs. The Department needs to continue its efforts to receive complete and timely performance reports from the RHAs.

We continue to recommend that the Department receive complete and timely information to ensure that the public money entrusted to RHAs is used properly.

Better control of capital assets needed

The Department needs a capital assets plan to ensure that it can deliver essential health services. It also should improve its capital project agreements with RHAs and other health agencies to help ensure that the Department can meet its objectives for capital construction.

Capital assets plan

Capital assets include buildings and equipment. The Department is responsible for health services in the province. It uses \$926 million of capital assets to deliver health services.

A capital assets plan documents decisions to ensure an agency has the capital assets required to deliver its services effectively, efficiently, and economically. A capital assets plan helps an agency to select the capital assets that have the best value and keep them in good working order.

Without a capital assets plan, the Department cannot ensure that it has adequate capital assets to deliver essential health services.

1. **We recommend that the Department of Health develop a capital assets plan to help ensure that it can carry out its strategic plan.**

Capital project agreements

The Department needs to improve its capital project agreements with its Crown agencies to ensure that the Department can meet its objectives for capital construction.

The Department makes capital project agreements with its agencies to construct or renovate health facilities. The Department has long-term commitments to spend \$61 million on major capital construction projects. The Department spent \$21.7 million on these projects in 2002-03.

The agreements should require health agencies to provide timely reports to the Department on:

- ♦ the status of the construction project at the date of the report (actual compared to plan for requirements, cost, and work

completed, and explanations of differences between planned and actual results);

- ◆ what the agency has accomplished since the last reporting period;
- ◆ the estimated time and cost to complete the construction project;
- ◆ the status of the expected benefits, whether the benefits are still achievable, and if not, the effects, if any, on the project plan; and
- ◆ the status of the construction projects' risks, new risks, and how the risks are being managed. Reports would include explanations of any change in the status of key risks from the last reporting period and the reasons for the change in status.

Without this performance information, the Department cannot ensure that capital projects managed by its agencies meet the Department's objectives. As well, the agreements need to set out a process for the Department to verify that the agencies' performance information is reliable.

We reported this matter in previous reports. In May 2001, PAC agreed with our recommendation.

We continue to recommend that the Department's capital construction agreements:

- ◆ require its Crown agencies to provide the Department with adequate and timely performance information on capital construction projects; and
- ◆ describe the Department's process for verifying performance information.

Policies needed for the Department's internal financial reporting

The Department needs clear written policies and procedures for preparing sound internal financial reports to support good management decision-making.

The Department needs timely, complete, and accurate financial reports throughout the year to help it make sound decisions. Adequate written guidance approved by senior management would help staff to prepare reliable internal reports. Reliable and relevant reports should result in better management decisions.

The Deputy Minister should approve the internal financial reporting policies and procedures to ensure that senior management receives the information it needs to manage the Department.

We have reported this matter every year since 1995. In January 1999, PAC agreed with the following recommendations.

We continue to recommend that:

- ♦ the Department document policies and procedures to prepare sound internal financial reports; and
- ♦ the Deputy Minister approve the Department's internal reporting policies and procedures.

Processes for drug payments not followed

The Department needs to follow its processes for "exception drug status" (EDS) payments.

The Department has adequate processes for approving payments for drugs that are normally ineligible for payment. A drug that is normally ineligible for payment may become eligible if it proves to be more effective than the eligible drugs for treating the patient. EDS drugs are often more expensive than eligible drugs. The cost of the EDS Program has risen from \$15.4 million in 1998-99 to \$46.1 million in 2002-03.

Physicians, dentists, optometrists, and pharmacists may apply to the Department for EDS coverage on behalf of their patients. Applicants can submit requests to the Department by telephone, mail, or fax. The Department's policy is to review the applications to ensure that they satisfy the EDS criteria before approving the drug for EDS coverage. The EDS criteria includes the qualifying diagnosis, patient's medical history, and the ineffectiveness of the eligible drugs on the patient's condition.

The majority of EDS coverage requests come from pharmacists. The Department requires pharmacists to document the physician's diagnosis and compliance with other eligibility criteria for each EDS coverage request.

During 2000-01, the Department studied 31 of 375 pharmacies to determine if pharmacists obtained the evidence of the patient's eligibility for EDS requests from the physician and appropriately recorded the information. The Department found that in many cases, pharmacists were either not recording the eligibility information or the source of the information. The Department paid for these EDS drugs.

After the study, the Department wrote to pharmacists to remind them to document the eligibility information and the source of the information before applying for EDS coverage. This documentation is critical to ensure that the Department only pays for drugs that meet its EDS criteria. The Department, however, has not followed up to determine if pharmacists' documentation has improved.

Lack of compliance with the Department's processes for EDS coverage could result in unauthorized and unnecessary drug payments. In addition, we are unable to determine whether all drug payments have adequate authority.

2. We recommend that the Department of Health ensure pharmacists follow its processes for "exception drug status" payments.

Capital asset costs overstated

The Department did not properly account for its capital costs.

The Financial Administration Act, 1993 allows the Department to record expenditures only when it has received goods or services or when it has met the eligibility and performance requirements.

The Minister of Health signed capital project agreements with its agencies. The agreements do not allow the Department to pay for construction until the agencies have done the work. Nonetheless, the Department recorded costs of \$17.5 million for capital construction not

done. The Department did not give the agencies this money. As a result, the Department overstated its expenditures by \$17.5 million.

- 3. We recommend that the Department of Health follow appropriate accounting policies for capital expenditures.**

The Department told us that: “it is the position of the Department that these charges were not inappropriate and they are consistent with direction provided by the Provincial Comptroller.”

Regional health authorities’ payee lists not given to Legislative Assembly

The Department did not give the Legislative Assembly the lists of persons (e.g., employees, suppliers) who received money from each RHA and the amounts the persons received.

Public disclosure is important for three reasons. First, public disclosure serves to remind all government officials that they are spending money that is entrusted to them by the public. Second, public disclosure adds rigour to decision-making as it ensures that those who spend public money know their use of that money will be public. Third, public disclosure ensures that the public knows who has received their money.

PAC’s disclosure requirements for Crown agencies are:

- ◆ persons who received salaries, wages, honorariums, and compensation for personal services of \$2,500 or more during the year;
- ◆ suppliers of goods and services who received more than \$20,000 per year; and
- ◆ persons who received transfer payments of more than \$5,000 per year.

All RHAs, except for Prairie North Regional Health Authority, gave the Department of Health their payee lists. The Department has not given the lists to the Legislative Assembly.

4. We recommend that the Department of Health give the Legislative Assembly the lists of persons (e.g., employees, suppliers) who received money from each RHA and the amounts the persons received.

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Introduction

The Legislative Assembly and the public often ask about the state of the health system's finances. They want to know whether the health system's financial condition is growing stronger or weaker, and why. Also, many want to know where they can obtain the information required to help them make their own assessments.

A sound understanding of the health system's finances¹ is important to an informed debate about the issues facing the health system. Those issues pertain to the affordability of programs and services, and the maintenance of Saskatchewan's health care infrastructure of buildings and equipment.

We report on six financial and economic measures. We modelled the measures after the research report, *Indicators of Government Financial Condition*, published by The Canadian Institute of Chartered Accountants. Each measure can and should be analyzed in detail, combined with other information, and monitored over time. Three of the measures relate to the RHAs because they incur most of the health costs.

Performance measures

The measures we report on include:

- ◆ total health spending as a percentage of the Province's GDP;
- ◆ total health spending as a percentage of the Government's total spending;
- ◆ change in health spending compared to change in the CPI and the Province's GDP;
- ◆ regional health authorities' (RHAs) operating surplus or deficit as a percentage of total RHA spending;

¹ We derived information on measures for the health system from the Government's statistical reports, the *Public Accounts 2002-2003: Volume 2: Details of Revenue and Expenditure*, and the annual financial statements of regional health authorities (RHAs) and other health agencies. The fiscal year-end for the Department, the RHAs, and other health agencies is March 31. Because the Gross Domestic Product (GDP) and the Consumer Price Index (CPI) are not available for a fiscal year, we use GDP and CPI statistics for a calendar year in our analysis. For example, the GDP statistic in the 2003 column is for the year ended December 31, 2002. We have not adjusted the information for inflation.

- ◆ RHAs working capital ratio; and
- ◆ change in the RHAs' capital assets.

The health costs we use in these measures do not include Federal Government spending for Indian and northern health services or the costs that individuals and private sector organizations pay for health services.

These measures do not provide information on trends in the health status of the province's residents or in the effectiveness of health services. The measures pertain only to the financial sustainability of the health system. During 2002, in a publication called *Saskatchewan Comparable Health Indicators Report*, the Department reported on 61 performance measures showing information on trends in the health status of the province's residents and the effectiveness of health services (see Part A of this chapter for more details on this performance report).

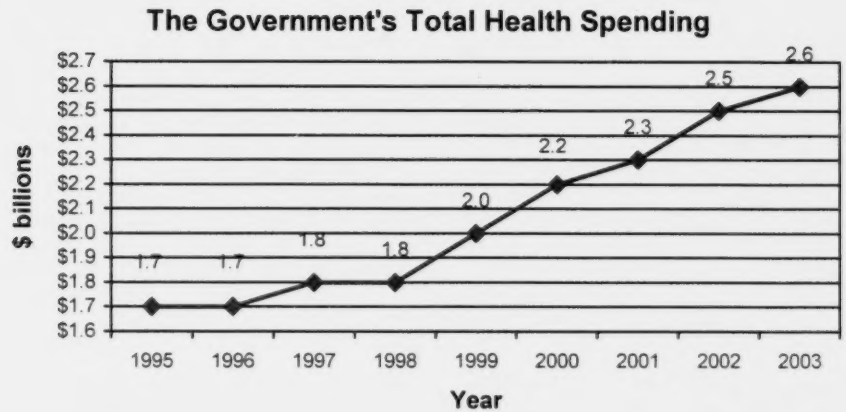
Total health spending as a percentage of the Province's Gross Domestic Product

The first performance measure of sustainability analyzes the total health spending as a percentage of the Province's GDP.

The Province's GDP is a measure of the value of goods and services produced in Saskatchewan in one year. The GDP reflects the size of the provincial economy. If health spending grows faster than the GDP, the economy may not be able to support that level of health care spending unless the Government reduces spending on other programs or increases taxes.

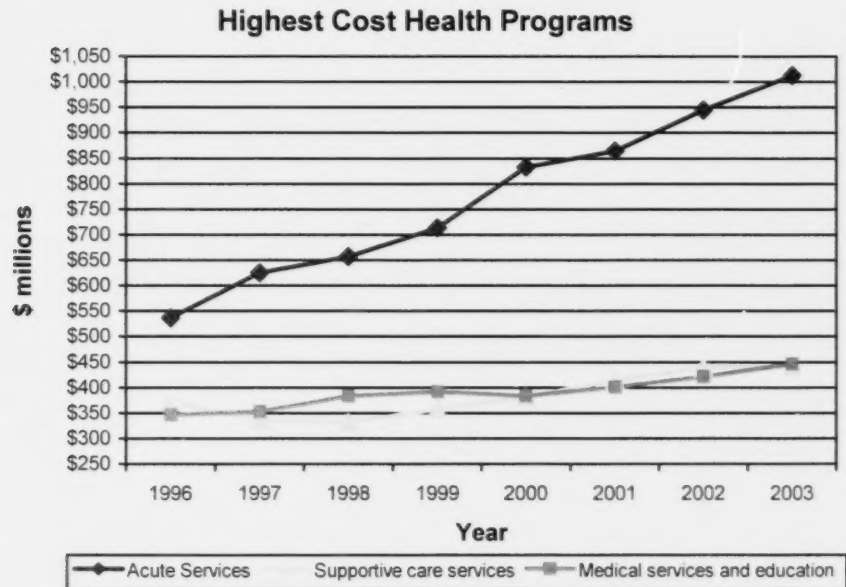
During the past eight years, the Government has increased health spending by 53% from \$1.7 billion in 1995 to \$2.6 billion in 2003 (see graph below). Over the same period, the Province's GDP increased by 40% from \$24.9 billion in 1995 to \$34.7 billion in 2003.

Graph 1



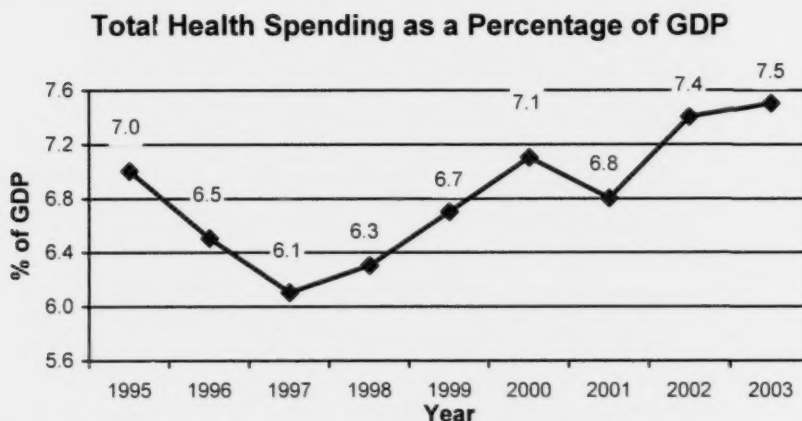
The following graph shows the three health programs that use most of the total health spending. These programs are acute services (i.e., hospitals), supportive care services (i.e., nursing homes), and medical services (i.e., payments to doctors). Acute services costs nearly doubled over the period from 1995 to 2003. The cost of the other two programs increased by less than 30% over the same period.

Graph 2



The following graph shows the trend in the total health spending as a percentage of the provincial GDP from 1995 to 2003. By comparing the total health spending to the Province's GDP, the reader can assess the financial demands placed on the economy by health spending.

Graph 3



This comparison shows that since 1997 health spending increased from 6.1% of GDP to 7.5% of GDP in 2003. If this trend continues, the economy may not be able to support the increasing levels of health care spending, unless the Government reduces spending on other programs or increases taxes.

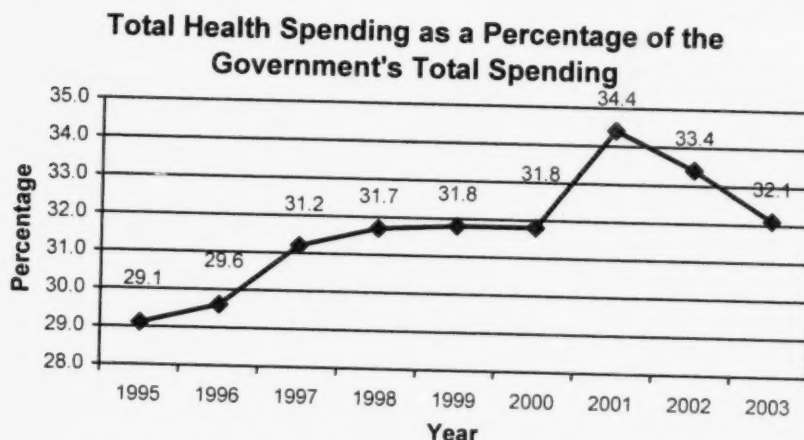
Total health spending as a percentage of the Government's total spending

The second performance measure of sustainability analyzes the total health spending as a percentage of the Government's total spending.

This measure shows the impact that health spending has on spending required to deliver other government programs. The ability to spend a greater percentage on health each year may not be sustainable because of the need to provide other necessary government services.

The following graph shows the trend in health spending as a percentage of the Government's total spending from 1995 to 2003. By comparing health spending to the Government's total spending, we can assess the financial demands health spending places on the Government's total spending.

Graph 4



This comparison shows that from 1995 to 2003, health spending has increased from 29.1% to 32.1% of the Government's total spending. The upward trend in this graph suggests a decrease in sustainability because increasing demands for health care spending is reducing the Government's ability to maintain required spending on other vital programs.

Change in health spending compared to change in the CPI and the Province's GDP

A third performance measure of sustainability analyzes the change in health spending compared to the change in the Consumer Price Index (CPI) and the GDP.

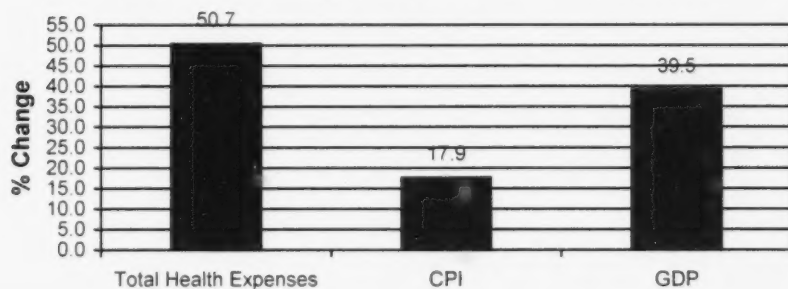
Comparing the change in health spending to the change in the CPI indicates whether health spending has kept pace with inflation. If health spending increases are higher than the CPI, this could indicate an unsustainable trend because health spending is exceeding inflation.

Comparing the change in health spending to the change in GDP shows the rate that health spending changed to the rate that the provincial economy changed. If health spending increases are higher than the growth of the provincial economy, this could indicate an unsustainable trend.

The following graph shows health spending is growing faster than the provincial economy and faster than inflation. Because Saskatchewan's economy is vulnerable to changes in commodity prices, interest rates, and the weather, the increases in health spending in recent years may be unsustainable. A downturn in Saskatchewan's economy could require the Government to make difficult decisions on health spending.

Graph 5

Change in Health Spending Compared to CPI and GDP - Percentage Increase from 1995 to 2003



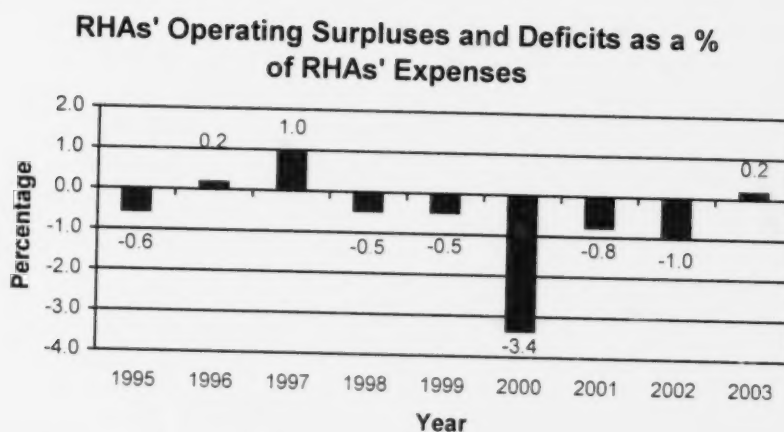
RHAs' annual operating surpluses and deficits as a percentage of total RHA spending

A fourth performance measure of sustainability analyzes the RHAs' annual operating surplus or deficit as a percentage of total RHA spending.

The annual operating surplus (or deficit) shows the extent to which the RHAs have more (or less) operating revenue than operating expenses in a fiscal year. RHAs that are able to run an operating surplus are better able to sustain their capacity to maintain their programs over the long term.

The following graph shows that since 1995, the RHAs fluctuated between having small annual surpluses and deficits with the exception of a relatively large deficit in 2000. If this trend continues, the RHAs should be able to sustain their capacity to maintain their programs over the long term.

Graph 6



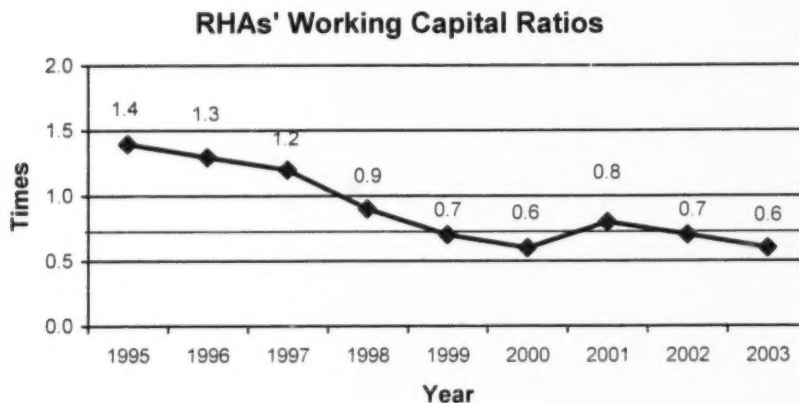
RHAs' working capital ratio

The fifth performance measure of sustainability analyzes the RHAs' working capital ratio.

RHAs calculate the working capital ratio by dividing current assets by current liabilities. This ratio represents the RHAs' ability to pay employees and suppliers on time. Declines in current assets compared to current liabilities may impair a RHA's ability to maintain programs and services.

The following graph shows a downward trend in the RHAs' working capital ratio from 1995 to 2003. The ratio reflects the number of times that current assets exceed current liabilities. At March 31, 1995, the RHAs had an average working capital ratio of 1.4 (i.e., RHAs had 1.4 times more current assets than current liabilities). The average working capital ratio fell to 0.6 in 2003. This means that current liabilities exceed current assets, which could impair the RHAs' ability to pay salaries and other costs on time. If this downward trend continues, more RHAs may experience problems in meeting their current financial debts to suppliers or employees. They also may be unable to maintain existing programs and services.

Graph 7



Change in the RHAs' capital assets

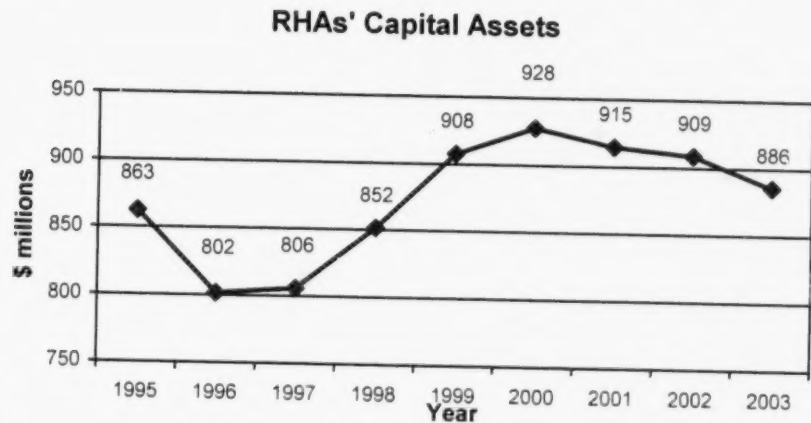
The final performance measure of sustainability analyzes changes in capital assets owned by RHAs.

The health system uses \$900 million of capital assets to deliver health services. Capital assets are resources such as property, buildings, and equipment that are used to deliver health services. RHAs must properly maintain or replace their capital assets, or risk losing the assets' productive capacity. For example, if RHAs delay making necessary building repairs, renovations, or replacements, the ultimate costs may be unsustainable. RHAs, like other organizations, must maintain and replace their capital assets. Otherwise, they face potential future costs to repair, renovate, or replace these assets, which may impair their ability to deliver needed services.

Governments and health experts are encouraging a shift of health services from institutions (e.g., hospitals, nursing homes) to services in the home and community. This shift is resulting in less need for new capital assets and may mean that some existing assets may not need to be replaced.

The following graph shows a trend in changes in capital assets owned by RHAs. From 1995 to 2003, capital assets have increased from \$863 million to \$886 million. This upward trend indicates continued sustainability of the RHAs' services.

Graph 8



Summary

We encourage legislators and the public to use the above analysis to promote discussion and debate on the state of our health system's finances. We expect that in future years the Department will publish similar information on the financial targets and measures it uses to assess its financial performance. Such reporting would provide useful information on the Department's financial performance.

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Introduction

On August 1, 2002, *The Regional Health Services Act* (the Act) created 12 regional health authorities (RHAs). The Act amalgamated all 32 former district health boards into the newly created RHAs.

The Act makes the RHAs responsible for the planning, organization, delivery, and evaluation of health services in their health regions.

In 2003, the RHAs had revenues totalling \$1.8 billion and a combined net loss of \$28 million. At March 31, 2003, the RHAs held assets of \$1.1 billion. Each RHAs' annual report contains its financial statements.

The RHAs and their appointed auditors are listed below. Our Office audits the Regina Qu'Appelle Regional Health Authority directly.

<u>RHA</u>	<u>Appointed Auditor</u>
Cypress	Stark & Marsh
Five Hills	Stark & Marsh
Heartland	Jensen Stromberg
Kelsey Trail	Neumann & Neumann
Keewatin Yatthé	Meyers Norris Penny LLP
Mamawetan Churchill River	Deloitte & Touche LLP
Prairie North	Deloitte & Touche LLP
Prince Albert Parkland	Meyers Norris Penny LLP
Regina Qu'Appelle	N/A
Saskatoon	KPMG LLP
Sun Country	Meyers Norris Penny LLP
Sunrise	Parker Quine LLP

Our audit conclusions and findings

We carried out our audit responsibilities for 11 of the RHAs by working with the auditors hired by the RHAs. As noted earlier, we audited the Regina Qu'Appelle Regional Health Authority directly.

For the RHAs where we worked with other auditors, we followed the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our web site at <http://www.auditor.sk.ca/rrd.html>).

In our opinion, for the year ended March 31, 2003:

- ♦ the RHAs financial statements are reliable except where we report otherwise in this chapter;
- ♦ the RHAs had adequate rules and procedures to safeguard public resources except where we report otherwise in this chapter; and
- ♦ the RHAs complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except where we report otherwise in this chapter.

The RHAs' appointed auditors and our Office formed the opinions referred to above with the following exceptions.

- ♦ The reports of the appointed auditors of Sunrise, Sun Country, and Five Hills RHAs did not describe the overstatement of assets and revenues in the financial statements for these RHAs as explained later in the chapter—*Preparing reliable financial statements*.
- ♦ The reports of the appointed auditor of the Saskatoon RHA did not describe the need for the RHA's board of directors to receive regular reports on the RHA's performance as noted later in the chapter—*Setting direction and monitoring performance*, or to have an information technology (IT) disaster recovery plan as described later in the chapter—*Information technology disaster recovery plan needed*.

When we are unable to rely on the work and reports of appointed auditors, *The Provincial Auditor Act* requires us to do additional audit work. Our additional work consisted of reviewing the RHAs' accountability reports, IT documentation, and discussing areas of concern with management.

In this chapter, we organize our audit findings and recommendations into four groupings. These groupings reflect important responsibilities of the

boards of directors (Boards) in their role of overseeing their RHAs' operations. These are:

- ◆ setting direction and monitoring performance;
- ◆ safeguarding public resources;
- ◆ complying with the law; and
- ◆ ensuring adequate accountability to the Legislative Assembly and the public.

Setting direction and monitoring performance

All Boards need to improve how they set direction and monitor their RHAs' performance.

To set direction and monitor performance, the Boards need to agree with management on:

- ◆ the RHAs' expected results (objectives);
- ◆ the key risks to achieving the objectives and how the risks are managed;
- ◆ the planned costs of achieving the objectives;
- ◆ the performance measures and targets to monitor progress in achieving the objectives; and
- ◆ the content of periodic reports to the Boards comparing actual results to plans.

At March 31, 2003, the RHAs had been in existence for only eight months. As a result, the Boards have not yet fully developed systems to set direction and monitor the performance of the RHAs.

However, the RHAs are working with the Department of Health to help the Minister of Health provide direction and monitor the performance of all RHAs. This work should provide useful guidance to the Boards on the kinds of performance information they need to govern their RHAs.

The Boards need to continue their work in setting direction and monitoring performance. We recognize measuring and reporting on objectives and costs will take time and resources.

1. We recommend that:

- ♦ the boards of directors of all regional health authorities (RHAs) define the RHAs' objectives and the measures and targets needed to monitor progress in achieving the objectives; and
- ♦ the RHAs' internal reports to the boards of directors compare actual performance to planned performance.

Better financial information needed

The Board of the Keewatin Yatthé Regional Health Authority (Keewatin) needs better financial information to monitor the RHA's performance.

The Board is responsible to oversee the management of Keewatin's operations. To carry out its responsibilities, the Board requires adequate financial information.

The financial reports the Board received did not contain complete or accurate information. For example, the financial information the Board received was limited to the RHA's revenues and expenses. Also, the reports noted that management was uncertain about the accuracy of the reported revenues and expenses (i.e., the revenues and expenses may have been incorrectly coded).

Incomplete and inaccurate financial information could result in management and the Board making incorrect decisions.

- 2. We recommend that the board of directors of the Keewatin Yatthé Regional Health Authority receive complete and accurate financial information.**

Written policies and procedures required

The Regina Qu'Appelle Regional Health Authority (Regina) did not have adequate written policies and procedures to achieve Regina's objectives and safeguard public resources.

For example, Regina did not have policies and procedures for budgeting and financial reporting.

Written policies and procedures provide for the orderly and efficient conduct of business. They reinforce the Board's delegation of authority and the responsibilities of all employees. They also help to prevent errors, fraud, breakdowns in control, and unauthorized transactions.

3. **We recommend that the Regina Qu'Appelle Regional Health Authority establish financial management policies.**

Safeguarding public resources

Boards of agencies need to ensure that management has established adequate processes to safeguard public resources.

We note the following instances where processes were not adequate to safeguard public resources.

Bank accounts need to be controlled

Three RHAs did not have adequate control of their bank accounts.

Keewatin did not reconcile its bank account for over one year. Bank reconciliations provide a check on the accuracy and reliability of accounting records. This process also ensures that all charges to the bank account are appropriate. As a result, the reconciliation should be prompt and approved. The lack of control processes could result in the RHA not detecting unauthorized payments promptly.

Our audit procedures did not detect any unauthorized payments. The RHA reconciled its bank account at March 31, 2003.

The Heartland Regional Health Authority (Heartland) did not ensure that it received the proper goods and services for all payments. For example, there was no evidence that cheque signers examined related purchase orders and suppliers' bills. In addition, Heartland did not ensure that it paid employees only for work done by ensuring their supervisors approved the time sheets. Heartland did not adequately segregate the duties of employees handling cash and recording cash. One employee

received all cash and cheques and recorded their receipt. As a result, Heartland may have made payments to suppliers for goods and services not received and to employees for work not done. In addition, the RHA may not have recorded all cash received.

In addition, Heartland did not keep separate accounting records or bank accounts for its restricted capital funds and its Community Trust funds. As a result, the risk increased that Heartland incorrectly reported and used the funds.

The Mamawetan Churchill River Regional Health Authority (Mamawetan) did not have adequate processes to ensure that it paid its employees only for work done. Management did not approve all the employee's time sheets. In addition, management did not review and approve payroll records to ensure they were accurate and complete. As a result, Mamawetan may have paid employees for work not done.

4. **We recommend that the Keewatin Yatthé, Heartland, and Mamawetan Churchill River Regional Health Authorities improve the control over their bank accounts.**

Capital asset records needed

Two RHAs need better processes to safeguard their capital equipment.

RHAs use a lot of equipment to provide health services to their residents. To safeguard their equipment, the RHAs should periodically count their equipment and reconcile the count to the equipment accounting records to ensure the records are accurate and complete, and the equipment exists.

Regina and Keewatin did not count their equipment. As a result, these RHAs did not have the information needed to know if their records are accurate and the equipment still exists. As a result, they may make poor decisions relating to their equipment purchases and disposals. Also, the equipment is not properly safeguarded.

5. **We recommend that the Regina Qu'Appelle and Keewatin Yatthé Regional Health Authorities ensure their accounting records for equipment are accurate and complete.**

Better processes over payroll needed

Keewatin needs to improve its processes to ensure that payments to its employees are complete, accurate, and authorized.

The Saskatchewan Association of Health Care Organizations (SAHO) prepares the RHA's payroll. SAHO gives the RHA monthly payroll reports showing how much employees are paid and key information such as sick leave expense and vacation pay owed to employees. SAHO prepares its reports using information it receives from the RHA.

To ensure that its payments to employees are accurate, complete, and authorized, Keewatin needs to ensure that it sends accurate information to SAHO. The RHA also needs to agree its payroll information to the reports it receives from SAHO promptly and take corrective action if necessary.

Keewatin did not agree its payroll information to SAHO's payroll reports. As a result, the RHA is at risk that it could make inaccurate or unauthorized payments to its employees.

Our audit procedures did not reveal any errors in Keewatin's payments to its employees.

6. We recommend that the Keewatin Yatthé Regional Health Authority strengthen its processes over payments to employees.

System development controls needed

The Sunrise Regional Health Authority (Sunrise) needs written processes for developing information systems.

Developing new systems is risky. If Sunrise does not manage the development of new systems well, costs increase, deadlines pass, and systems fail.

Management has developed processes for developing information systems. However, the Board has not formally reviewed or approved

these processes. As a result, Sunrise did not ensure that its processes are adequate to properly manage the development of future systems.

7. **We recommend that the board of directors of the Sunrise Regional Health Authority approve written processes for developing information systems.**

Information technology disaster recovery plan needed

Seven RHAs need written, tested, and approved information technology (IT) disaster recovery plans to ensure that they can continue to deliver their programs and services if their IT systems are not available. The RHAs should base the plans on a risk assessment focusing on key programs, systems, and data.

An IT disaster recovery plan should:

- ◆ set out the responsibilities of those who are to implement the plan;
 - ◆ include emergency procedures to be used while the system is unavailable;
 - ◆ include steps for the recovery and restoration of the system;
 - ◆ have documentation of program processes and procedures; and
 - ◆ be regularly tested and updated.
8. **We recommend that the Prairie North, Heartland, Cypress, Sunrise, Kelsey Trail, Saskatoon, and Mamawetan Churchill River Regional Health Authorities prepare information technology disaster recovery plans.**

Board minutes need approval

The Board of the Keewatin Yatthé RHA needs to approve its minutes.

Board minutes are the key record of the Board's governance processes and decisions taken. Therefore, the Board must review and approve its minutes to document that the minutes are an accurate and complete record of the Board's meetings. Once the Board has approved the minutes, usually at the next meeting, the Board's chair and Board secretary should document the Board's approval by signing and dating

the minutes. The Board's chair and secretary did not sign any of the Board's minutes during the year ended March 31, 2003.

Without signed Board minutes, the Board cannot ensure all activities and transactions of the RHA are properly authorized.

9. **We recommend that the board of directors of Keewatin Yatthé Regional Health Authority promptly approve the Board's minutes.**

The Board chair and secretary signed the board minutes for the year ended March 31, 2003 in November 2003.

Complying with the law

Boards of agencies need to ensure management has complied with legislative and related authorities including key agreements.

We note the following instances where the RHAs did not comply with the law and other authorities.

Compliance with The Regional Health Services Act needed

Heartland did not comply with *The Regional Health Services Act* (the Act) when it made renovations to the Kindersley Integrated Health Facility.

The Act does not permit the RHA to alter a facility without prior approval of the Minister. Heartland submitted plans to the Minister in advance of the renovations. However, the RHA did the renovations before receiving the Minister's approval.

10. **We recommend that the Heartland Regional Health Authority receive approval from the Minister of Health before making facility renovations.**

Compliance with The Housing and Special Care Homes Regulations needed

Two RHAs did not comply with *The Housing and Special Care Home Regulations* because they failed to set up separate trust bank accounts for residents' monies held for safekeeping.

Section 3 of *The Housing and Special Care Homes Regulations* requires that cash turned over to the operator of the home for safekeeping be deposited in a banking institution and the account designated as a trust account. The two RHAs have not established such bank accounts.

11. **We recommend that the Heartland and Sun Country Regional Health Authorities comply with *The Housing and Special Care Homes Regulations* when holding trust monies for safekeeping.**

Compliance with service agreements by affiliates required

The Sun Country RHA is unable to ensure that private health care agencies (affiliates) that provide services on behalf of the RHA are meeting the RHA's objectives.

The RHA has service agreements with its affiliates. Sun Country paid the affiliates \$12 million during the year to provide services to residents of the health region. The service agreements require the following information from each affiliate each year:

- ◆ internal control opinion on financial control systems;
- ◆ audit report on the compliance with legislative and related authorities;
- ◆ report on services and activities and their costs; and
- ◆ report on the health status of the residents and the effectiveness of programs.

None of the affiliates provided any of this information to the RHA. Without this information, Sun Country is unable to ensure that the affiliates are achieving the RHA's objectives. In addition, without this information, we are unable to ensure that the RHA spent money only for intended purposes.

12. We recommend that the Sun Country Regional Health Authority ensure that private health care organizations comply with its service agreements.

Non-compliance with the Tabling of Documents Act, 1991

The Tabling of Documents Act, 1991 requires the Keewatin Yatthé RHA to give its financial statements for the year ended March 31, 2003 to the Legislative Assembly by July 28, 2003. The RHA has not given its audited financial statements for the year ended March 31, 2003 to the Legislative Assembly at the date of this report. Accordingly, the RHA did not comply with *The Tabling of Documents Act, 1991*.

13. We recommend that the Keewatin Yatthé Regional Health Authority give its financial statements to the Legislative Assembly in accordance with *The Tabling of Documents Act, 1991*.

Ensuring adequate accountability to the Legislative Assembly and the public

Annual reports

All RHAs need to improve their annual reports to help the Legislative Assembly (Assembly) and the public to assess the RHAs' progress in achieving their plans.

We examined each RHA's annual report for the year ended March 31, 2003. We used the reporting principles and guidelines set out in the Department of Finance's *Public Performance Reporting Guidelines, April 2003* to assess the annual reports.

We found the RHAs' annual reports do not provide adequate information to enable the Assembly and the public to assess the RHAs' performance. The annual reports do not describe each RHA's objectives, their key risks in achieving their objectives, or their performance measures to monitor progress in achieving the objectives.

The Department of Health is providing direction that should help the RHAs to improve their accountability to the Assembly and the public. The Department:

- ◆ published its long-term goals and objectives;
- ◆ developed performance measures all RHAs must use to assess their progress in achieving the Department's objectives;
- ◆ approved each RHA's long-term plan; and
- ◆ is working with the RHAs to develop guidelines for regular performance reporting to the Minister of Health.

The above direction should provide useful guidance to the RHAs for preparing their annual reports.

14. We recommend that all the Regional Health Authorities' annual reports include:

- ◆ their objectives, performance measures, and actual results compared to plans; and
- ◆ the risks to achieving the RHAs' objectives, and how the RHA will manage the risks.

Preparing reliable financial statements

In our opinion, the financial statements of three RHAs for the year ended March 31, 2003 are reliable except for the overstatement of the RHAs' assets and the revenue from the General Revenue Fund (GRF) in the following amounts: Sunrise—\$2.1 million, Sun Country—\$6 million, Five Hills—\$1.8 million.

The Minister of Health signed agreements with RHAs for capital construction. The Department directed the RHAs to record the above amounts as construction revenue from the GRF even though the RHAs had not done the construction entitling them to the money. Also, the Department had not paid the RHAs the money at March 31, 2003. Canadian generally accepted accounting principles (GAAP) do not permit the RHAs to record revenue until they become entitled to the money, i.e., carry out the construction.

The recording of the construction revenue before doing the construction is not in accordance with GAAP. As a result, the RHAs overstated their revenue and assets by the amounts noted earlier.

15. We recommend that the Sunrise, Sun Country, and Five Hills Regional Health Authorities:

- ♦ properly account for construction revenue from the General Revenue Fund; and
- ♦ amend and reissue their 2003 financial statements accordingly.

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Managing risks to quality medical services

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Introduction

Managing the quality and cost of health care helps keep the health system sustainable. It also impacts the Government's financial well-being and the resources available for other services.

The Department of Health is responsible to maintain the health system, its quality, and its cost. The Government spends 32 percent of its total spending on health services (see Part B, page 52 of this chapter). In Saskatchewan, health spending grows faster than the rate of economic growth. It also grows faster than spending on other government services.¹

In this study, we focus on medical services. We outline the Department's responsibility for quality medical services and describe key risks. We also highlight some of the ways that the Department manages risks to medical services.

By medical services we mean medically necessary services provided by doctors, nurse practitioners, dentists (e.g., dental surgery), chiropractors and optometrists. These services are most often paid for on a "fee-for-service" basis. Some doctors and others who provide medical services are paid a salary.

Medical services is one of the Department's largest areas of spending. In 2002-03, the Department spent \$446 million on medical services. Medical services also trigger significant spending in other parts of the health system (e.g., drugs, diagnostic tests, hospitalizations).

The cost of medical services grows with scientific advances, more chronic illness, and rising public expectations. These key forces also influence the quality of services. The Department faces a challenge to balance quality with rising costs and expectations.

Exhibit 1 shows how the Department accepts responsibility for quality, cost-effective services in its goals. To manage risks to quality medical services, the Department must have systems that support safe and cost-effective services. In addition, it must design policies so that services are

¹ Pages 41, 51, *Saskatchewan Health Annual Report 2001-2002*.

fair or equitable, affordable, meet basic needs, and invest in the future through preventive approaches².

With limited resources, the Department's policies must make trade-offs so that medical services meet the minimum needs of all without unfair restrictions on services for those with special needs. Legislation requires the Department to balance "comprehensive" services with essential, "medically necessary" services available to everyone.

Exhibit 1—Overview of Plan for 2003-04 and beyond

(excerpts from *Saskatchewan Health Annual Report 2002-03*, emphasis added)

Goals and objectives

1. Improved access to quality health services (e.g., coordinate primary health care, reduce waiting times for surgery, improve emergency medical care, improve hospital...and long-term care including program standards)
2. Effective health promotion and disease prevention
3. Retain, recruit and train health providers
4. A sustainable, efficient, accountable quality health system
 - a) ensure quality effective health care (e.g., provide support for good decisions to health professionals)
 - b) appropriate governance, accountability, and management for the health sector (e.g., leadership, budgeting, education)
 - c) sustain publicly funded and publicly administered health care (e.g., work with partners to ensure cost-effective approaches to health care, maintain financial sustainability)

Background

*The Constitution Act (1867)*³ makes health a provincial matter. It gives provincial governments authority over health services for the public.

Saskatchewan's Department of Health exercises this authority primarily through legislation. For example, *The Department of Health Act (1979, section 6)* authorizes the Department to "develop, co-ordinate and maintain a system for the provision of comprehensive health services."

² Peters, S. (1995). *Exploring Canadian values: Foundations for well-being*. Ottawa: Canadian Policy Research Network.

³ Formerly called *The British North America Act*, section 92 describes the Division of Powers to provinces.

The Act also expects the Department to stimulate health research, for example, with grants. *The Regional Health Services Act* (2002, section 4) authorizes the Department to set measures and targets to promote the effective and efficient use of health services.

Through *The Canada Health Act* (1984), the Federal Government agrees to help the provincial governments pay for health services for the public. The Act puts conditions on provincial governments. For example, the Act requires provincial governments to provide “comprehensive” services that are “medically necessary.”

The Act does not define “medically necessary.” Each provincial government has the authority to select services that meet the needs of its population and set the fee it will pay for each of those services. Generally, “medically necessary” refers to services that serve a useful purpose. That is, services that the provincial governments judge appropriate.⁴

Provincial governments put limits on what they describe as medically necessary. For example, provincial governments do not pay for cosmetic surgery. Every year the Department publishes a list of services that it does not pay for in its Medical Services Branch Annual Statistical Report.

Provincial governments must make these decisions with care, considering the needs of the population. For example, the British Columbia Government refused to increase health services to children with autism. In 2002, the Supreme Court ruled that the province must provide the additional services. This ruling makes clear that there are limits to the ability of provincial governments to restrict services and still provide “comprehensive” services.

Key forces influencing medical services

Many factors influence the health system. Medical services are changing continually due to three primary influences: scientific advances, more chronic illness, and rising public expectations. These factors put pressure on the quality and cost of medical services. Continual change increases the risk of inappropriate services and unmanaged costs.

⁴ The term “medically necessary” includes moral judgements as well as those based on science and experience (e.g., which patient should have priority if there is a waiting list).

First, scientific advances change medical services and may increase risks. Service providers and the public want to use new discoveries. However, the benefits of some discoveries may not yet be proven. The Department must decide whether to use public resources to pay for these services. If there is no proof of benefit, the service is not medically necessary. Similarly, the Department must decide if it should continue to pay for less effective services when a better service is available.

Second, medical services change due to increased chronic illness. Unlike short-term acute illness, chronic illness requires regular ongoing medical attention. Half of all Canadians now have a chronic illness (e.g., asthma, high blood pressure, arthritis, back problems).⁵ The rate of chronic illness in Saskatchewan has two main influences. Our population is older than in other provinces and older people have more chronic illnesses. Our growing First Nations population also has a high rate of chronic and disabling conditions such as diabetes.

Third, public expectations change medical services. Access to more health-related information (e.g., radio, television, or Internet) shapes what the public expects. The public sometimes asks for inappropriate medical services. For example, some people want specific laboratory tests or antibiotics when they will not help. Other people expect immediate surgery rather than trying more conservative approaches like exercise.

Canadian research shows that public demand influences medical services in unexpected ways. For example, healthy seniors use more medical services than do ill seniors. Similarly, people with higher incomes use more medical specialists than low income people with the same condition.⁶ These patterns may increase the volume and cost of services without improving health in significant ways.

Risks to quality medical services

Quality in any industry occurs when the right person receives the right services at the right time to achieve the intended purpose. Quality health

⁵ Kirby, M.J.L. (2002). *The health of Canadians: The federal role*. Volume VI Recommendations for reform. Ottawa: Government of Canada.

⁶ Black, C., Roos, N.J., Havens, B., & MacWilliam, L. (1995). Rising use of physician services by the elderly: Contribution of morbidity. *Canadian Journal on Aging* 14(2), 225-244.

services improve health. That is, quality health services reduce pain or increase a person's ability to function without causing harm.

The challenge is that the health industry often does not know whether the expected benefit of medical services will be greater than a potential harm. Harm may not be immediate, but later may cause disability or death. The health industry needs long-term research. Long-term research helps explain which services achieve their intended purposes without doing more harm than the benefit justifies. Research helps to identify high quality, cost-effective medical services.

Researchers commonly describe risks to quality medical services in three ways:

1. underuse of services known to benefit most people,
2. overuse of services in ways that are known to have little benefit, and
3. misuse of services in ways that cause harm.

Most risks to medical services are the result of faulty systems rather than faulty people.⁷ The health industry has few systems to control risks to medical services.

Ideally, the systems would make it easier for service providers to make the right choices and harder to make the wrong ones. However, in Canada, the health system is just beginning to monitor harmful events to learn what systems would be helpful. At present, provincial governments do not know the extent of the risks to quality health services.

In addition, the health industry currently lacks research evidence about the benefit or harm of many frequently-used medical services. Nor does the health industry have systems to ensure that service providers use the available research evidence. This further compounds the risks. Exhibit 2 sets out some examples of the resulting risks for discussion below.

⁷ Kohn, L.T., Corrigan, J.M., & Donaldson, M.S. (Eds.). (2000). *To err is human: Building a safer health system*. Washington, D.C.: National Academy Press.

Exhibit 2—Risks to quality medical services

Underuse of services known to benefit health

- ◆ failure to use effective advanced treatments
- ◆ inadequate use of prevention (e.g., failure to immunize against influenza, or to use effective screening procedures)

Overuse of services with minimal benefit compared to cost or the risk of harm

- ◆ repeated or routine use of tests intended for initial diagnosis
- ◆ excessive use of some surgeries

Misuse of services due to errors or uninformed decisions

- ◆ wrong treatment prescribed or wrong patient receives treatment
- ◆ treatment prescribed or given in wrong amount, time, or method

Healthcare providers and policy-makers express concern about increasing risks to the quality of medical services. Research in the United States and Australia shows that a harmful event of some kind happens to 3% to 16% of people admitted to hospital.⁸ The harm may be due to a range of problems from unnecessary procedures (e.g., duplicate or excess tests), errors (e.g., wrong drug, operation on wrong limb), unreasonable variation in medical services, or other harmful events.

How the Department ensures quality medical services determines the benefit of the services and impacts future health costs. Underuse, overuse, or misuse of effective medical services can lead to unnecessary loss of life, disability, unnecessary hospitalization, and a waste of public resources.⁹

Underuse of services

Research shows that many people do not receive effective medical services that would have benefited them. The services most commonly underused are preventive services.

Task forces in Canada and the United States found that not all patients who could benefit actually receive preventive services that research

⁸ Thomas, E.J., Studdart, D.M., et al. (2000). A comparison of iatrogenic injury studies in Australia and the USA. *International Journal for Quality in Health Care* 12(5), 371-8.

⁹ Hernandez, J.B. (1999). *Evidence-based standards for providers*. Sacramento Health Care Quality & Prevention Project.

shows is cost effective.^{10,11} For example, not all those who would benefit from influenza vaccine (i.e., a flu shot) receive it. Similarly, not all women over 50 receive screening tests for cervical cancer every three years (i.e., a PAP smear).

Overuse of services

The Department's *Action Plan for Saskatchewan Healthcare* (2002, p.66) states that, on average, use of services goes up annually. This increase in the number of tests, prescriptions, and services grows independent of factors such as the size of the population.

The use of medical services may increase for a variety of reasons. Service providers overuse some medical services due to public expectations. For example, in some provinces the desire to arrange infant births at convenient times may result in excess Caesarean births. Some overuse of medical services may include controversial treatments that recent research finds more harmful than previously thought (e.g., hormone replacement therapy during menopause).

Promotion of products by drug and equipment companies may also result in overuse of medical services. Some companies promote products and related medical services on the basis of short-term studies. Such studies may show short-term benefits without revealing long-term harm.

Misuse of services

Misuse of medical services refers to errors or unanticipated variation in medical practice. The service provided does not match the patient's need or is not consistent with accepted best practice.

Some misuse of medical services may be due to errors related to service provider stress, fatigue, or distraction. This type of error may show that the health system is not adequately designed to prevent mistakes. For example, when doctors and nurses provide emergency coverage over very long time periods, they are more likely to make errors.

¹⁰ United States Preventive Services Task Force. *Guide to Clinical Preventive Services*. 1996.

¹¹ Canadian Task Force on the Periodic Health Examination. *The Canadian Guide to Clinical Preventive Health Care*. 1994.

The health system describes some variations in medical services as misuse. That is, service providers may treat similar conditions in very different ways. For example, misuse occurs if medical approaches to the same condition vary widely in different locations. Similarly, it may be misuse if low income people receive different services than others with the same condition.

Managing risks to quality medical services

The Department uses a number of approaches to manage risks to the quality of medical services. We discuss three of these approaches here:

- ◆ promoting evidence-based services;
- ◆ setting public policy; and
- ◆ analyzing medical services, including explaining underuse, overuse, and misuse in reports.

Promoting evidence-based services

Facilitating research

The Department needs to know which medical services contribute most to health and well-being with the least cost. The Department encourages and funds some health research. The Department also works with others to promote research about effective services.

In its *2002-03 Performance Plan* (p.62), the Department committed to increase by 40% the public resources that it spends for health research. In this way the Department expects to increase information about the type or level of service that is most effective.

The Department also supports the identification and use of medical practice guidelines. Such guidelines influence the delivery of appropriate, evidence-based medical services.¹²

¹² In Saskatchewan, Health Services Utilization Research Commission has verified clinical guidelines. In Alberta, the Alberta Medical Association is involved (web site <http://www.albertadoctors.org/resources/guideline.html>). (November 2003).

Informing service providers about research findings and best practices is critical. The Department and professional bodies support a system of continuing medical education. Attending educational events is one way service providers stay up-to-date with the consensus on evidence-based best practices.

Setting standards

Clear expectations help all service providers ensure their services are effective. The Department establishes standards for some services through its regulations and policies.

For example, in July 2003, the Department announced a new system to give patients fair and timely access to surgery. The Department consulted Saskatchewan specialists to develop a new way to assess urgency for surgeries such as hip replacements. The system helps doctors consider specific factors when deciding whether a patient needs priority surgery.¹³

Another system to promote appropriate medical services is the Health Quality Council established in 2002. One purpose of the Council is to provide evidence-based information to improve the quality and safety of the health system. One of the Council's five priorities is to develop systems to increase the use of best practices and other evidence that supports appropriate services. Best practices help to standardize the quality of services.

The Department's *2002-03 Performance Plan* (p.64 Goal 4, Objective 4) states that it intends to sustain medicare in various ways including making the best use of health providers and resources. Setting standards helps to clarify expectations, encourages best practices, and makes better use of resources. Standards can also reduce overuse, underuse, and misuse of medical services.

¹³ Page 73, *Action Plan for Saskatchewan Healthcare*. Regina: Government of Saskatchewan.

Setting public policy

Determining medically necessary services

Each provincial government decides how to select which services are medically necessary and how to pay for them. In Saskatchewan, the Department's Payment Schedule Review Committee recommends changes to services and fee-for-service payments. The Committee has equal representation from the Department and the medical community.

Through the Committee's recommendations and changes to the regulations governing fee-for-service payments, the Department periodically revises the fee schedule so that it reflects new clinical approaches to carry out accepted services. Occasionally, the Committee recommends that specific medical services not be paid for under the Medical Services Plan.

The Committee makes these recommendations after considering what other provincial governments exclude from the range of comprehensive services. For example, since 1993, the Government no longer pays for the removal of warts and other harmless skin lesions as these procedures are not considered medically necessary. Similarly, since 1996, it no longer pays for elective male circumcision.

Paying for quality

The Department is responsible to design payment systems that encourage high quality, effective services. To do this, the Department needs to focus public resources on those services known to work. It is complex to design a system that guides service providers to use effective services consistently.¹⁴

The method of paying service providers influences the medical services provided.¹⁵ The Department pays most service providers on the basis of an agreed fee for each medical service performed. The Department also makes alternate payment arrangements (e.g., contract, salary) with an

¹⁴ Leape, L.L., Berwick, D.M., & Bates, D.W. (2002). What practices will most improve safety? Evidence-based medicine meets patient safety. *Journal of American Medical Association* 288(4), 501.

¹⁵ Shortt, S.E.D. (2002). Paying doctors Impact of a change in remuneration method at a Canadian academic health centre. *Canadian Journal of Program Evaluation* 17(1), 73-96.

increasing number of service providers.¹⁶ The Department plans to use alternate payment arrangements for family doctors who voluntarily join primary health care teams.¹⁷

If the Government does not pay service providers for a particular service, service providers may be less willing to perform that service. For example, until June 2001, the regulations did not specify a payment code for time that service providers spent talking to home care nurses. Communication from home care nurses helps doctors to adjust treatments to suit current needs (e.g., pain medication). The Government now lists communication with home care nurses as a medically necessary service with a fee-for-service payment.¹⁸

Promoting collaborative care

The Department is responsible to keep the health system up-to-date and responsive to changing needs. For example, increased chronic illness requires more collaboration among family doctors, home care nurses, other care providers, and specialists. The Department now emphasizes multidisciplinary teams for primary health care. These teams often include nurse practitioners who improve access to the health care system.

In addition, a shrinking population in southern rural areas and a growing population in northern areas directs the Department's attention to the question of adequate access to services in both northern and rural areas. The Department is responding with technology such as tele-health and long-distance diagnostic imaging which enable collaboration.

Analyzing medical services

Monitoring medical services

Monitoring medical services helps identify underuse, overuse, and misuse of services. It also helps to ensure that corrective action is timely.

¹⁶ Alternate payment arrangements for doctors increased from \$16.6 million in 2001-02 to \$20.2 million in 2002-03. Page 6, *Annual Statistical Report 2003-03*, Medical Services Branch, Saskatchewan Health.

¹⁷ Page 13, *Action Plan for Saskatchewan Health Care*. 2002. Regina: Government of Saskatchewan.

¹⁸ Page 6, *Annual Statistical Report 2003-03*, Medical Services Branch, Saskatchewan Health.

The Department monitors payments for medical services. The Department uses its monitoring system to deter inappropriate services. The Department's systems also help it to avoid paying for medical services not actually provided including duplicate payments for a single service. If a doctor provides more services than expected, the Department explores the cause. If necessary, the Department encourages the doctor to reduce overuse of services.

In addition, the Department works with health professions to monitor medical services. For example, if the Department's monitoring system finds serious overuse or misuse of a specific procedure, it refers the case to the Joint Medical Professional Review Committee.¹⁹ This Committee determines whether or not to recover overpayments from doctors. If the Committee suspects fraud, it refers the case to the Department of Justice. The Committee refers cases of potentially unethical or incompetent behaviour to the College of Physicians and Surgeons. These systems focus on individual service providers and may result in corrective action.

Other industries find that broader monitoring systems help to reduce errors and other risks to quality. The Department plans to require health regions to report harmful events that put at risk the quality of health services. *The Regional Health Services Act, 2002* (section 58, not yet proclaimed) requires health regions to report "critical incidents" or significant errors in care, including medical services.

The Department plans to use these reports to monitor the quality of health services and analyze the causes of significant quality problems. Such a system enables timely corrective action to reduce risks to quality medical services.

For example, when the Department produces reports about the type of misuse that occurs, it will be better able to design systems to support the quality of medical services. It will also be able to give feedback to service providers. Feedback helps to reduce risks.

¹⁹ The Joint Medical Professional Review Committee examines the billing practices of doctors. The Joint Optometric Committee examines the billing practices of optometrists. The Joint Chiropractic Professional Review Committee examines the billing practices of chiropractors.

Reporting the performance of medical services

The Department publishes an *Annual Statistical Report* that reports the number and type of medical services. The report also compares services from one year to the next. This is useful information to help analyze medical services.

The *Annual Statistical Report* does not include information about risks to medical services and how the Department manages these risks. The Government's accountability framework may require reports of the results of medical services in the future. Such reports would describe the quality of medical services (e.g., trends in use of medical services known to work, proportion of harmful events).

Our audit plans

Controlling the risk of underuse, overuse, and misuse of medical services are critical to the Department's control of health system quality and costs.

In the future, we plan to examine and report publicly how well the Department manages the key risks to medical services.

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Main points

The Department of Community Resources and Employment is a large, complex agency that spent \$607 million delivering its programs.

The Department did not adequately follow its rules and procedures to ensure that it spent all public money for the purposes intended by the Legislative Assembly.

For social assistance payments, the Department needs to improve its compliance with its established procedures to ensure that only eligible clients receive assistance and that they receive the correct amount of assistance (e.g., the Department must strengthen its verification of the continued eligibility of clients to receive assistance).

For programs that Community-Based Organizations (CBOs) deliver, the Department should strengthen its assessment of the CBOs' progress in achieving the Department's operational objectives. To do this, the Department needs to encourage CBOs to submit timely and complete performance reports.

For children in its care, the Department must follow its rules and procedures to ensure that it protects children and that payments to care providers are authorized (e.g., the Department needs to ensure that care providers are qualified to care for the children).

Introduction

The mandate of the Department of Community Resources and Employment (formerly Social Services) is to advance the economic and social well-being of Saskatchewan people. It provides basic income support, housing, childcare, career services, and employment programs. The Department helps vulnerable families care for and support family members. It supports independent community-based services for people with mental and physical disabilities.

The Government's summary financial statements show social services and assistance expenses of \$794 million for the year ended March 31, 2003 (March 31, 2002 - \$784 million).

The following table sets out the total Government spending for social services and assistance expenses by agency:

		(in millions of dollars)	
		<u>2003</u>	<u>2002</u>
Department of Community Resources			
and Employment	\$	607	\$ 580
Department of Municipal Affairs and Housing		-	139
Saskatchewan Housing Corporation		113	-
Department of Learning		24	53
Department of Justice		50	-
Other Government agencies		-	12
		<u>\$ 794</u>	<u>\$ 784</u>

The Department received \$607 million from the General Revenue Fund to deliver its programs. The following list shows the major programs and spending based on the original estimates.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Income Support	\$ 308	\$ 308
Family and Youth Services	70	65
Community Living	76	74
Regional Service Centres	68	69
Child Care	20	19
Accommodation and Central Services	17	17
Other	53	52
Early Childhood Development	<u>3</u>	<u>3</u>
Total	<u>\$ 615</u>	<u>\$ 607</u>

Special purpose funds and Crown agencies

The Department is responsible for the following special purpose funds and Crown agencies:

	<u>Year-End</u>
Social Services Central Trust Account	March 31
Saskatchewan Housing Corporation (SHC)	December 31

We reported the results of our audit of SHC in our 2003 Report – Volume 2, Chapter 9—Community Resources and Employment.

Our audit conclusions and findings

In our opinion, for the year ended March 31, 2003:

- ♦ the Department had adequate rules and procedures to safeguard public resources except as described in this chapter; and
- ♦ the Department complied with the authorities governing its financial reporting, safeguarding public resources, revenue raising, and spending except as described in this chapter.

Policies and procedures need to be followed for social assistance payments

The Department needs to follow its rules and procedures to ensure that only eligible persons receive social assistance and that they receive the correct amount of assistance.

The Department paid approximately \$238 million in social assistance during the year ended March 31, 2003. The Department had adequate rules and procedures for ensuring that only eligible persons receive the right amount of assistance. For example, the Department's rules and procedures require that it:

- ♦ verify and document the eligibility of clients (e.g., living arrangements, employment status, personal income and assets);
- ♦ periodically compare social insurance numbers with other provinces to ensure that each client is only collecting benefits from one province;
- ♦ matches information reported by clients to other government agencies (e.g., Canada Customs and Revenue Agency) to ensure that clients are reporting all income to the Department; and
- ♦ carries out internal audits of social assistance payments and compares the audit results with a pre-established acceptable error rate.

The Department did not adequately follow its established rules and procedures to ensure that only eligible persons receive the correct amount of assistance.

The Department's rules and procedures include verifying clients' eligibility when they apply for assistance and at least annually after that. Forty-eight percent of the client files we examined did not contain adequate information for the Department to verify the eligibility of applicants. For example, application forms in these files did not contain all required information such as the client's identification, employability, assets, income, spouse, and dependants.

The Department's annual verification of each client's continued eligibility was not adequate. For many clients, the Department relied on annual questionnaires filled out by clients. Also, the Department often did not adequately document or verify changes to clients' eligibility based on information obtained during the annual review.

The Department did not adequately document its verification of expenses (e.g., rent, utilities) paid to, or on behalf of, clients in 27% of the files we examined.

Fifteen percent of the files we examined indicated a significant possibility of payments to ineligible clients or incorrect payments to eligible clients. For example, clients who were not eligible received benefits such as a monthly training allowance or a disability benefit. We expected that the Department would have investigated such cases to ensure the clients received the correct amount of assistance. However, we found no evidence that the Department investigated those cases.

Because the Department did not adequately follow its rules and procedures, it did not know that only eligible clients received the correct amount of assistance. Also, because the Department did not adequately follow its rules and procedures, we are unable to determine that only eligible clients received the correct amount of assistance.

We also reported this matter in previous reports. In June 2001, the Standing Committee on Public Accounts (PAC) agreed with our recommendation.

We noted that the Department has started to strengthen its processes for ensuring staff follow its rules and procedures. The Department has set up a call centre to unify the collection of client information. This has improved the accuracy and completeness of information collected on new or reapplying clients. The Department is also providing additional training to staff to ensure they are aware of and able to follow the rules and procedures.

We continue to recommend that the Department follow its established procedures to ensure that only eligible clients receive assistance and that they receive the correct amount of assistance.

Internal auditor's reports not timely

The Department needs timely reports from its internal auditor.

The internal auditor's reports provide senior management with assurance on the effectiveness of the Department's processes designed to ensure that it spends public money according to the law.

The internal auditor prepared audit reports on the following programs:

- ♦ Saskatchewan Assistance Plan (SAP); and
- ♦ Saskatchewan Employment Supplement (SES).

The Department expects an annual internal audit report on each program within six months of the end of the audit period. We think the Department needs the audit reports sooner. The Department cannot make timely decisions with audit reports that are six months old. Reporting deadlines of three months or sooner would provide the Department with more useful information.

The internal auditor did not issue audit reports on SAP and SES until six months after the audit period. As well, the internal auditor did not provide any interim audit reports. Without timely audit reports, the Department cannot be sure that its rules and procedures are working properly to ensure that money is spent according to the law.

We also reported this matter in previous years. In June 2001, the PAC agreed with our recommendation.

We continue to recommend that the Department receive timely internal audit reports.

Policies to protect children in care need to be followed

The Department needs to ensure that children in its care are protected and that payments to the childcare providers are authorized.

One objective of the Department is to promote the well-being of children, youth, and families throughout the province. The Department has

programs and services to protect children from abuse and neglect, support families and communities in caring for children, assist people facing family violence, and provide adoption services.

The Department has approximately 1,700 children in foster care and 725 in alternate care. Foster care providers usually do not have any prior relationship with the child. For alternate care, the Department places the child with family or other relatives.

The Department has established policies and procedures for the placement of children in its care and to ensure payments for childcare are properly authorized. If the Department does not follow its policies and procedures, it cannot ensure that children in its care are safe and that payments to the child care providers are authorized.

For both foster and alternate care providers, the Department requires criminal record checks on all adults living in the home. In seven of the 16 cases we reviewed, the Department did not do criminal record checks on one or more adults living in the home. In one case, we found where a care provider had an extensive criminal record and the Department had not considered this when approving the care provider. The Department also requires checks on a potential child care provider's past history with the Department. In three of the 16 cases we reviewed, the Department did not verify a potential care provider's past history with the Department.

The Department often did not have agreements with care providers. Eight of the 16 files we examined did not contain agreements with care providers.

For children placed in alternate care, the Department's policies are less detailed. The Department requires a home assessment on each potential care provider to ensure that it places the child in a safe home. The Department also requires that its employees maintain contact with the alternate care provider and child as necessary to ensure that the child is well cared for and protected.

We note that the Department did not consistently follow its policies for alternate care. In two of the eight files we examined, the Department did not complete home assessments. In addition, three files did not adequately document the home assessments. Also, in five files, there

was a lack of evidence that the Department maintained adequate contact with children in alternate care.

Because the Department did not consistently follow its policies and procedures, the Department cannot ensure that it protects the children in its care or that payments to care providers are authorized.

1. **We recommend that the Department follow its policies to ensure that children in its care are protected and that payments to care providers are authorized.**

Maintenance (child support) enforcement needs improvement

The Department needs to ensure it accurately monitors the pursuit of child support.

The Department requires social assistance clients to pursue other means of support before being eligible for assistance. A custodial parent receiving assistance is required to pursue child support from the other parent if obtaining such support is possible. The Department reduces the amount of assistance provided to the custodial parent through SAP by the amount of child support received. The SES program encourages custodial parents to pursue child support by providing more money to eligible custodial parents who receive child support of at least \$125 per month, but not more than \$3,000 per month.

We examined the records that the Department used to monitor the pursuit of child support. Fifty-seven percent of the records that we examined were not accurate. We also found cases where there was no evidence that support had been adequately followed-up or was being actively pursued.

We reported this matter in prior years. In January 1999, PAC agreed with our recommendation.

We continue to recommend that the Department improve its records and document its procedures to ensure that custodial parents receiving social assistance pursue child support.

Processes for community-based organizations need improvement

The Department's processes to use Community-Based Organizations (CBOs) to deliver services need strengthening.

The Department paid approximately \$70 million to over 260 CBOs. CBOs are non-profit organizations that provide a wide range of programs to local communities for the Department. These programs include group homes, services to enable people to live in their own homes (who otherwise could not), and early childhood and youth-at-risk interventions.

Agreements

The Department's agreements with CBOs need improvement to ensure that the CBOs achieve the Department's objectives. In our opinion, adequate service agreements:

- ◆ set out clearly the Department's financial, operational, and compliance with the law objectives;
- ◆ require the CBOs to report periodically to the Department their assessments of the control they have established to achieve the Department's financial, operational, and compliance with the law objectives;
- ◆ require the CBOs to report to the Department periodically on their progress in achieving the Department's objectives;
- ◆ allow the Department or an independent auditor to verify the CBOs' reports; and
- ◆ describe how the Department will provide money to the CBOs.

For CBOs managing small amounts of public money (e.g., less than \$250,000), the Department could have less stringent reporting requirements than those described above. For these CBOs, the Department could directly monitor and document their performance instead of requiring formal performance reports from these CBOs.

The Department's annual agreements with CBOs set out the Department's financial and compliance with the law objectives, allow the Department to verify reports received, and describe the basis of Department funding. However, the agreements do not clearly set out the Department's operating objectives. Also, the agreements do not require CBOs to report periodically their assessments of the control they have established to achieve the Department's objectives. Control comprises those elements of a CBO (including its resources, systems, processes, culture, structure, and tasks) that, taken together, support people in the achievement of the Department's objectives. To meet its responsibilities, the Department must know that the CBOs have systems, processes, and other control elements to ensure the proper use of public money entrusted to the CBOs.

As a result of inadequate agreements with CBOs, the Department did not know if CBOs are meeting the Department's financial, operational, and compliance with the law objectives. Also, because the Department did not have adequate agreements with CBOs, we are unable to determine if the money was used only for the type of payments specified in the service agreements.

2. We recommend that the Department strengthen its service agreements with CBOs.

Performance reports

Service agreements require CBOs to submit annual reports describing their services and activities as well as quarterly and annual financial reports. These financial reports include a comparison of actual to budget and an explanation of differences. In addition, the service agreements also specify the dates the Department is to receive the reports. These reports help the Department to monitor the CBOs to ensure money is spent as intended.

However, the Department does not require the CBOs to set performance measures and targets to enable the CBOs to report their progress in meeting the Department's objectives. In addition, CBOs are not providing the required financial information on time. Our tests showed that 60% of the quarterly and 32% of the annual reports (June 30 deadline) were submitted late or not at all.

The Department did not do timely reviews of the CBOs' financial reports. It reviewed 54% of the reports more than seven months after the CBOs' year-ends or not at all. Late reviews of financial reports could result in the Department not taking timely corrective action, if for example, a CBO was not spending public money for the purposes intended.

Because the Department did not adequately follow its rules and procedures, it does not know if the CBOs are achieving the Department's operational objectives and financial objectives. Also, because the Department did not have adequate agreements with CBOs, we were unable to determine if the Department spent the money for the types of expenditures cited in the agreements.

We also reported these matters in previous years. At its June 2001 meetings, PAC agreed with our recommendations.

We continue to recommend that the Department ensure all CBOs submit timely performance reports to the Department as required by agreements.

We continue to recommend that the Department perform timely reviews on all the performance information submitted by the CBOs.

We continue to recommend that the Department work with CBOs to establish performance measures and targets that better allow the Department to assess the CBOs' progress in achieving the Department's operational objectives.

Management stated it is developing performance measures and targets for each program area and CBO. Management told us that it hopes to include requirements for outcomes-based accountability reporting as part of the service agreements with CBOs in the future.

Business continuity plans required

The Department needs a written, tested, and approved business continuity plan to ensure that it can continue to deliver its programs and services if its facilities or people are unavailable or if its IT systems fail.

The Department should base its plan on a risk assessment that focuses on key systems.

The Department relies heavily on information technology (IT) systems and data to deliver its services. Department services include providing social assistance payments and emergency money to people in need. The Department is also responsible for protecting children from abuse and neglect, supporting families and communities in caring for children, and assisting people facing family violence. These are services that the Department must provide promptly even if its facilities or staff are unavailable or if its IT systems fail.

A business continuity plan should:

- ◆ set out the responsibilities of those who are to implement the plan;
- ◆ include emergency procedures to be used while the system is unavailable;
- ◆ include steps for the recovery and restoration of the system;
- ◆ have documentation of program processes and procedures; and
- ◆ be regularly tested and updated.

The Department does not have a business continuity plan. However, the Department has some plans that would make up parts of a business continuity plan. For example, it has documented steps to ensure that it can restore systems quickly.

Without a business continuity plan, the Department cannot ensure that it will be able to deliver its programs and services if its facilities or people are unavailable or if its IT systems fail.

3. **We recommend that the Department prepare a business continuity plan.**

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Main points

This is the Department of Learning's first year of operations. It administers programs previously delivered by the former departments of Education, Post-Secondary Education and Skills Training, and Municipal Affairs and Housing. It has responsibility for the provincial learning sector.

The learning sector is large and complex. During 2002-03, the Department provided educational agencies with over \$1 billion. In addition to this money, educational agencies raise significant revenues from various sources (e.g., property taxes, tuition fees, research grants). This chapter sets out the need for better reporting on performance for various levels within the learning sector.

Legislators need information on the learning sector to gain a better understanding of who is accountable to whom, for what, and by when. The chapter notes that the Department is developing a learning sector plan with its education partners. Once finalized, the Department expects to report publicly against it. We look forward to this.

The Department, legislators, and the public need better performance information from various educational agencies. While the chapter notes progress towards better performance reporting, it calls for further progress.

For example, boards of school divisions spend over \$1 billion. These boards administer and manage the 99 school divisions. While the financial statements of school divisions are improving, they are not yet prepared using rigorous accounting rules. Other local governments such as municipalities do so. Rigorous accounting rules ensure financial statements are consistent, reliable, and comparable. The Department must help the school divisions move forward in this area.

Finally, the chapter notes two programs where the Department needs better processes to ensure only eligible persons receive aid in the correct amount – Saskatchewan student loan and provincial training allowances.

Introduction

In this chapter, we provide a brief overview of the Department's role, goals, and financial activities. In addition, we set out the results of our 2003 audits of the Department, its related special purpose funds, and its agencies.

Understanding the Department

It is important that legislators and the public understand the role of the Department, its goals, and finances. This helps them to assess the Department's performance.

Role of the Department and its goals

Effective April 1, 2002, Cabinet created the Department of Learning. The Department has overall responsibility for the learning sector. This sector is comprised of pre-kindergarten to Grade 12 (K–12) education, post-secondary education, technical training, and public libraries.

Its responsibilities are set out primarily in The Education Act, 1995 and The Department of Post-Secondary Education and Skills Training Act, 2001, and The Public Libraries Act, 1996.

At March 31, 2003, the K–12 education system included 99 locally-elected boards of education and conseils scolaires. These boards administer the school divisions.

The post-secondary education and technical training system includes services for adult learners and student financial assistance (e.g., student loans and bursaries). The primary educational agencies include the University of Saskatchewan, University of Regina, Saskatchewan Institute of Applied Science and Technology, Saskatchewan Apprenticeship and Trade Certification Commission, eight regional colleges, and other privately- and federally-funded vocational schools.

The provincial library uses ten public library systems to provide basic library services.

Specific responsibilities of the Department include:

- ◆ Developing a strategic plan for the learning sector and advancing the goals of this plan,
- ◆ Developing provincial K–12 curriculum and instructional practices,
- ◆ Approving the structure and boundaries of school divisions,
- ◆ Working with school divisions to deliver educational programming,
- ◆ Certifying and classifying K–12 teachers,
- ◆ Overseeing the post-secondary education and skills training system,
- ◆ Regulating the operations of private vocational schools and home-based education,
- ◆ Providing adult learners with financial assistance (e.g., loans, grants, bursaries, and scholarships),
- ◆ Coordinating the provincial library system, and
- ◆ Providing a component of the Early Childhood Development strategy.

The Department's web site contains its annual reports and other key publications. It is located at <http://www.sasked.gov.sk.ca/>. In its 2003-04 Performance Plan, the Department set out its goals. (See Exhibit 1.)

Exhibit 1—Department of Learning: 2003-04 Performance Plan

Department of Learning goals

1. the diverse learning needs of individuals are met through high quality programs and services,
2. the diverse needs of communities, employers and economy are met, and
3. the structural and fiscal integrity of the Learning systems is sustainable.

Source: 2002-2003 Annual Report: Saskatchewan Learning

Related special purpose funds and agencies

The Department is responsible for the following special purpose funds and agencies:

	<u>Year-end</u>
Education Infrastructure Financing Corporation (EIFC)	March 31
Saskatchewan Correspondence School Revolving Fund	March 31
Saskatchewan Learning Resources Distribution Centre Revolving Fund (LRDC)	March 31
Saskatchewan Student Aid Fund	March 31
School Division Tax Loss Compensation Fund	March 31
Training Completions Fund	March 31
University of Regina	April 30
University of Saskatchewan	April 30
Carlton Trail Regional College	June 30
Cumberland Regional College	June 30
Cypress Hills Regional College	June 30
North West Regional College	June 30
Northlands College	June 30
Parkland Regional College	June 30
Prairie West Regional College	June 30
Saskatchewan Apprenticeship and Trade Certification Commission (SATCC)	June 30
Saskatchewan Institute of Applied Science and Technology (SIAST)	June 30
Southeast Regional College	June 30
Teachers' Superannuation Commission	June 30

Overview of Department finances

As reported in the Government's summary financial statements, the Government spent \$996.7 million¹ (2002 - \$987.2 million) on Education for the year ended March 31, 2003. Table 1 shows the Government's spending on education by agency.

¹ Saskatchewan Finance, *Public Accounts 2002-03: Volume 1 Main Financial Statements*, p.46

Table 1

	2002-03 (in millions of \$)	2001-02
Department of Learning	\$ 1,085.6	\$ 1120.0
SIAS	135.9	134.4
Student Aid Fund	39.3	44.1
EIFC	38.0	---
Centenary Fund	10.0	8.1
Department of Culture, Youth and Recreation	3.5	4.1
Other government organizations	40.9	48.5
Less expenditures for purpose other than education	(356.5)	(372.0)
	<u>\$ 996.7</u>	<u>\$ 987.2</u>

In 2002-03, the Department raised \$56.7 million (2002 - \$61 million) of revenue of which 98% (2002 - 97%) came from the Federal Government.

In 2002-03, the Department directly spent over \$1 billion. It spent 55% of this amount on K -12 education, 42% on post-secondary education and technical training, and 3% on administration and other programs (e.g., Early Childhood Development, Provincial Library). Through the Education Infrastructure Financing Corporation (EIFC), it provided post-secondary education agencies with \$30.9 million and school divisions with \$7.1 million for capital projects. See Table 2 for further details.

Table 2

	Estimates 2002-03 ² (in millions of \$)	Actual 2002-03 ³
Administration	\$ 5.7	\$ 6.4
Accommodation and central services	6.5	11.4
Capital grants from centenary funding	9.3	10.0
Early Childhood Development	2.1	2.0
K -12 Education	502.4	525.5
Post-Secondary Education	331.3	359.4

² Saskatchewan Finance, *Saskatchewan Estimates 2002-03* for Learning (Vote 5) and the amount of Centenary Fund (vote 70) assigned to Learning.

³ Actual per Public Accounts of \$1,085.6 million is adjusted for unrecorded 2003 pension revenue of \$37.5 million, \$38 million for related Education Infrastructure Financing Corporation capital projects, and \$9.95 million for capital projects paid from the Centenary Fund. The Estimates are not adjusted.

	Estimates 2002-03 ²	Actual 2002-03 ³
Provincial Library	8.0	8.1
Student Support programs	68.4	55.4
Teachers' Pensions and Benefits	105.4	75.0
Training programs	44.8	42.9
	\$ 1,083.9	\$ 1,096.1

The Public Accounts 2002-03: Volume 2: Details of Revenue and Expenditure report information about the Department's revenue and expenses (to view a copy of this report, see <http://www.gov.sk.ca/finance/paccts>).

School divisions with property taxes pay for a portion of the costs of K-12 education. In 2002, school divisions spent over \$1 billion on operating and capital costs.

Table 3 summarizes the total revenues and assets held by the special purpose funds and agencies. The revenues include money provided by the Department. Other revenue is primarily tuition fees from students, federal government grants, and sales of services.

Table 3 – Total revenues and assets held by special purpose funds and agencies

Fund or agency	2003 Total revenues	2002 Total revenues	2003 Total assets held	2002 Total assets held
Education Infrastructure Financing Corporation	\$0.57	(Actual in millions of dollars) Not applicable	\$38.6	Not applicable
Regional Colleges (combined)	49.68	45.70	32.16	27.80
Saskatchewan Apprenticeship and Trade Certification Commission	10.36	9.84	0.76	0.82
Saskatchewan Correspondence School Revolving Fund	1.39	1.38	0.51	0.43
Saskatchewan Learning Resources Distribution Centre Revolving Fund	(0.72)	0.40	---	2.00
Saskatchewan Student Aid Fund	26.81	35.30	103.91	99.35
School Division Tax Loss Compensation Fund	1.44	2.13	4.50	4.24
SIAST	136.21	131.78	45.94	43.80
Training Completions Fund	0.07	0.08	0.43	0.36
Teachers' Superannuation Plan	74.84	86.41	1,575.43	1,732.58
University of Regina	145.90	132.00	219.75	186.19
University of Saskatchewan	532.40	522.20	985.45	932.85

Source: Audited financial statements of each for 2002 and for 2003 unless otherwise stated.

For the year ended June 30, 2003, \$95.5 million of SIAST's revenues came from the Department (2002- \$91.8 million), and \$9.6 million of

Saskatchewan Apprenticeship and Trade Certification Commission's revenues came from the Department (2002 - \$9.6 million).

For the year ended April 30, 2003, \$76 million of the University of Regina's revenues came from the Department (2002 - \$62 million), and \$246.8 million of the University of Saskatchewan's revenues came from primarily the Department and the Department of Health (2002 - \$257.6 million).

Each year, the Legislative Assembly receives the annual report including the audited financial statements of each agency and the audited financial statements of each special purpose fund.

Audit conclusions and findings

In this chapter, we report the results of our 2003 audits of the Department, its special purpose funds as listed above, the Education Infrastructure Financing Corporation, SATCC, SIAST, Teachers' Superannuation Commission, and of three of the eight colleges - Carlton Trail Regional College, Cumberland Regional College, and Northlands College.

In our opinion for the fiscal years ending on or before June 30, 2003:

- ♦ the Department and the above-listed agencies had adequate rules and procedures to safeguard public resources, except for the matters reported in this chapter;
- ♦ the Department and the above-listed agencies complied with authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing; and
- ♦ the 2003 financial statements of the above-listed agencies are reliable.

Since 1998-99, we audit colleges on a cyclical basis. Chapter 12 of our 2002 Fall Report – Volume 2 describes our involvement and its basis.

For SIAST, we carry out the audit jointly with KPMG LLP. In addition, we worked with the appointed auditors of the above three colleges and the Education Infrastructure Financing Corporation to form the each of above opinions.

The following table sets out the appointed auditor for each of these agencies. In this work, we used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of the report, see our web site at <http://www.auditor.sk.ca/rrd.html>). The auditors of the other five colleges did not report any new matters for the colleges they audited.

<u>Crown agency</u>	<u>Appointed auditor</u>
Carlton Trail Regional College	E.J.C. Dudley & Co, Chartered Accountants
Cumberland Regional College	Neumann & Neumann, Chartered Accountants
Education Infrastructure Financing Corporation	E.J.C. Dudley & Co Chartered Accountants
Northlands College	Meyers Norris Penny LLP, Chartered Accountants

Findings—Department

In this section, we make one new recommendation and provide an update on the status of previously reported recommendations.

Inaccurate reporting of certain costs

Due to the use of Treasury Board's accounting policies, the Department has not reported its costs properly.

In our audit report on the 2003 financial statements of the General Revenue Fund⁴, we report that Treasury Board does not use appropriate policies to account for pension costs and costs of certain capital projects (loans receivable). The Department follows policies set by Treasury Board to prepare its financial plan and to account for its activities.

⁴ *Public Accounts 2002-03: Volume 1: Main Financial Statements*, Auditor's Report [on the General Revenue Fund], pp 11 – 12.

In its 2002-2003 Annual Report, the Department understates post-secondary capital costs by \$30.9 million, understates K-12 Education costs for school capital by \$7.1 million, and overstates the teachers' pension costs by \$37.5 million.

See Chapter 10—Finance for further details.

Monitoring provincial training allowances

The Department needs better processes to ensure that it pays eligible persons provincial training allowances in the correct amount.

The Department administers the provincial training allowance program. The Department provides details of the program at http://www.sasknetwork.gov.sk.ca/pages/fh/fh_pers5.htm.

In general, the Department provides allowances to low income adults enrolled in certain training programs to assist with their costs of living. Applicants must meet conditions to qualify for money. Key conditions relate to the eligibility of training program and financial need based on family income and other resources available, marital status, living arrangement (i.e., with parents or not), and number of dependents. This program is similar to the social assistance program.

During the year, the Department provided \$19.9 million (2001-02: \$22.4 million) under the program.

As with social assistance, errors in payments are unavoidable due the nature of the program. We expected the Department's procedures to include the following. The procedures would prevent or detect incorrect payments (that is payments to ineligible persons or in incorrect amounts) to a rate acceptable to the Department (i.e., pre-established error rate). Senior management of the Department would review and approve the rate. Department would compare results of checks to the pre-established error rate, and adjust procedures, as necessary, to ensure they detect or prevent errors as expected.

During 2002-03, the Department identified that it made significant overpayments. It adjusted future payments of recipients for overpayments where possible. In addition, it took steps to recover overpayments where

it is no longer making payments to the recipient. In most cases, the individuals have limited financial resources and recovery of overpayments is difficult. At March 31, 2003, the Department has \$3.2 million of overpayments not yet recovered. The Department estimates that it does not expect to recover almost 74% of this amount.

At March 31, 2003, the Department had not set an error rate. Without this benchmark, the Department cannot determine if its procedures for this program are adequate or if they require adjustment.

1. We recommend that the Department set out the rate of incorrect payments for the Provincial Training Allowance program that it will accept, and use procedures that prevent and detect incorrect payments to meet the pre-established rate.

Better reporting on performance needed

Performance reporting includes reporting on results against previously established objectives. As such, performance reporting involves timely sharing of plans.

In the last few years, our Office has made four key recommendations related to better reporting on performance. The Standing Committee on Public Accounts discussed these recommendations and agreed with them. We recommended that the Department:

1. provide legislators and the public with a clear concise description of the accountability relationships between the Department and key provincial educational agencies (explaining accountability relationships);
2. have Cabinet approve a sector-wide plan and the Department report publicly against this plan (sector planning and reporting);
3. work with school divisions and other stakeholders to set public reporting requirements for school divisions' performance in achieving the Goals of Education, (performance reporting requirements for school divisions); and

4. set financial reporting requirements for school divisions consistent with those recommended by The Canadian Institute of Chartered Accountants for the public sector. (performance reporting requirements for school divisions).

As mentioned earlier on April 1, 2003, Cabinet formed the Department by amalgamating programs formerly delivered by several other departments. The Department has continued with many actions previously in place. In addition, it initiated new actions to progress towards the implementation of these recommendations.

The following provides a brief summary of the status of the above recommendations.

Explaining accountability relationships

The Learning sector is large and complex. Over 20 laws set out the authorities and responsibilities of the Department. In addition, these laws guide the accountability relationships between the Department and agencies within the sector. Key agencies include 99 school divisions, two universities, SIAST, SATCC, eight regional colleges, and regional libraries.

The accountability relationships between the Department and the various educational agencies vary. In some cases, agencies are directly accountable to the Legislative Assembly, while in others they are not. For some, Cabinet appoints the board, and the Department approves the agency's business plan and directly holds it accountable for the achievement of the plan (e.g., regional colleges). While in others, Cabinet appoints part or none of Board. In these cases, the Board is elected (either in full or in part). Typically, these agencies must obtain the Department's approval of key activities, such as borrowing (e.g., universities) or building (e.g., school divisions).

The diversity in these different arrangements makes it challenging for legislators and the public to understand who is accountable to whom and for what. A clear understanding of accountability relationships is critical. A clear and common understanding is essential to the successful implementation of a plan.

The Department has provided legislators with some information to assist in this understanding. However, legislators need additional concise information to provide them with a clearer understanding of the key accountability arrangements. Legislators need this understanding to enable them to assess the Department's and the sector's success properly.

Sector planning and reporting

During 2002-03, the Department actively worked with educational agencies and other key stakeholders to develop a plan for the learning sector. Key stakeholders included Saskatchewan Association of School Business Officers (SASBO), Saskatchewan Teachers' Federation, Saskatchewan School Trustees Association, League of Educational Administrators, Directors and Superintendents, Multitype Library Board, Federation of Saskatchewan Indian Nations, and Métis Nation of Saskatchewan.

The Department is using the guidance set out in the Government's accountability framework to develop this plan. The Department expects to finalize the sector plan by October 2003. Once finalized, it plans to report publicly against it.

In the meantime, the Department continues to provide legislators with information on its sector through its annual report and other key documents. For example, the Department published the *2002 Saskatchewan Education Indicators – Kindergarten to Grade 12* in June 2003. These reports present data on a provincial basis for the K-12 education component of the learning sector. The Department bases the reports on data collected from school divisions as part of the provincial indicators program. The Department generally publishes these reports every second year.

In addition, the Department participates in the school assessment indicators program (SAIP). SAIP is a cyclical program of pan-Canadian assessments of student achievement in mathematics, reading and writing, and science. Since 1993, the Councils of Ministers of Education of Canada (CMEC) have carried out these assessments. CMEC publishes the results of these assessments (e.g., SAIP Mathematics III

Assessment 2001⁵). The Department makes them available to the public through its web site.

Performance reporting requirements for school divisions

During 2002-03, the Department furthered its activities to improve the performance reporting of school divisions. For example, it worked with school divisions who agreed to participate in a reporting program. Under this program, the school divisions improved their capacity to report on their performance.

The Department started this program in 2001. Although the Department has not made this program mandatory for all school divisions, it expects all school divisions to take part by 2005-2006.

At March 31, 2003, school divisions do not use generally accepted accounting principles as recommended by The Canadian Institute of Chartered Accountants (GAAP) to prepare their financial statements.

The Department is working with SASBO to have school divisions use GAAP to prepare their financial statements. School divisions are moving to the use of GAAP in steps. For 2002, SASBO expected school divisions to use its accounting policies to prepare their 2002 financial statements. These policies reflect most of GAAP. In 2002-03, the Department worked with SASBO to assess the quality of the 2002 financial statements and to assist school divisions in making this change.

Use of GAAP helps ensure school divisions prepare consistent, reliable, and comparable financial information for decisions. The Department must help move school divisions forward in this area.

Findings—Saskatchewan Student Aid Fund

Background

The Department uses the Saskatchewan Student Aid Fund (Fund) to help students finance their education with grants, bursaries, and loans.

⁵ The SAIP Writing III 2002 assessment is currently in progress.

In 2003, the Fund had revenues of \$26.8 million including \$18.5 million from the General Revenue Fund and expenditures of \$39.3 million. At March 31, 2003, the Fund held net assets of \$4.2 million.

Verifying critical information

The Department needs to verify critical information on student loan applications within a reasonable period.

During the year, the Department approved approximately 16,000 student loans (2002 - 18,000 loans) for approximately \$56 million (2002 - \$60 million). In addition, the Department paid debt-reduction benefits to students and incurred other costs of \$28 million (2002 - \$35 million). These debt-reduction benefits and other costs depend on the amount of loans awarded to students. When the Department approves loans to students in excess of the amount they are entitled, these debt-reduction and other costs also increase.

By not verifying all critical information within a reasonable period, the Department may incur unnecessary costs and may not comply with the provisions of the regulations that govern student assistance. The Department must decide which applicant information to verify before approving loans and which information to verify later. Verifying critical information on student loan applications helps ensure only eligible students receive aid in the correct amounts. The Department must balance its costs to verify applicant information with the need to provide students with timely financial assistance.

During the year, the Department's processes to verify critical information on student loan applications did not improve. Critical information that the Department does not sufficiently verify includes information on: the number of dependants, single parent status, receipt of daycare allowances, amount of scholarships, the value and existence of vehicles, and whether the applicant is a resident of the province.

Because the Department does not sufficiently verify the above information, it is not practicable for us to do so. As a result, we are unable to report the extent to which students received incorrect amounts of aid.

We continue to recommend that the Department verify critical information on student loan applications.

We have reported this matter for several years. The Standing Committee on Public Accounts previously concurred with this recommendation in March 2001, April 1999, and December 1996.

The Department told us that it plans to implement a new student financial assistance system. The system should help it check loan applications.

Findings—Regional Colleges

In this section, we set out our findings related to the audits of Carlton Trail and Cumberland Regional Colleges, and Northlands College. The appointed auditors of the other five regional colleges report similar findings.

Performance management and reporting improving

Since 1996, we have recommended that colleges improve the reports used by the boards to monitor the colleges' performance. In February 1998, the Standing Committee on Public Accounts concurred with our recommendation. We continue to make this recommendation.

To measure and report on performance, colleges must:

- ◆ set performance measures and targets for their objectives.
- ◆ use adequate systems to track their performance against the targets.
- ◆ compare actual results to planned and explain significant differences.
- ◆ report on performance to their boards, the Department, the Legislative Assembly, and the public.

During 2002-03, we noted progress by the three colleges we audited. Each of the colleges continued to make positive changes, but need to make further progress to enhance reporting of their performance.

The colleges worked with the Department to improve how they manage and report on their performance. The colleges and the Department have developed jointly a set of common performance measures. In addition, the colleges are developing measures specific to their business plans. The colleges expect to use these measures to report their performance in future reports to the Minister.

A few colleges include their annual reports on their web sites. Legislators do not receive reports on Colleges' performance other than their audited financial statements. We look forward to the colleges providing legislators with reports on their performance.

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Liquor and Gaming Authority

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Main points

Saskatchewan Liquor and Gaming Authority (Liquor and Gaming) regulates the Saskatchewan beverage liquor and gaming industries. It also operates retail liquor stores, video lottery terminals (VLTs), and owns and manages slot machines at Saskatchewan Indian Gaming Authority's (SIGA) casinos.

During 2003, Liquor and Gaming continued to work towards setting spending and casino operating policies for safeguarding public money under SIGA's control. However, progress is slow. So far, Liquor and Gaming has approved only a few of SIGA's spending policies such as promotion and sponsorship. Near the end of the year, or shortly after, SIGA proposed most of its spending and operating policies to Liquor and Gaming. At mid-October 2003, Liquor and Gaming has not approved any of these policies. Management told us that Liquor and Gaming has not done so because it asked SIGA to revise the policies.

In our 2000 Fall Report – Volume 2, we said Liquor and Gaming should recover any of SIGA's expenses that are not reasonable (i.e., those expenses that do not comply with policies that Liquor and Gaming approved for SIGA). During the last two years, Liquor and Gaming audited SIGA and identified expenses that did not comply with the approved policies. However, Liquor and Gaming has not recovered those expenses. Liquor and Gaming needs to establish a process to recover expenses that do not comply with the approved policies.

In May 2003, Liquor and Gaming told the Standing Committee on Public Accounts that it expects to implement all of our past recommendations by Spring 2004.

Introduction

The Saskatchewan Liquor and Gaming Authority (Liquor and Gaming) operates under *The Alcohol and Gaming Regulation Act, 1997*. The mandate of Liquor and Gaming is to develop, support, operate, and regulate the Saskatchewan beverage liquor and gaming industries. The mandate also requires Liquor and Gaming to maximize public benefit through high quality services and products, and encourage responsible consumption of beverage alcohol and participation in gaming.

Liquor and Gaming operates retail liquor stores and video lottery terminals. It also owns and manages the slot machines at Saskatchewan Indian Gaming Authority's (SIGA) casinos. Under *The Criminal Code of Canada*, only the Government can own and manage slot machines in Saskatchewan. The Government decided to use SIGA to operate the slot machines under Liquor and Gaming's direction. Under the current casino operating arrangements, SIGA must pay Liquor and Gaming the revenues from the slot machines. Also, SIGA must follow policies that Liquor and Gaming approves for incurring casino operating expenses. Liquor and Gaming allows SIGA to deduct expenses that comply with the approved policies from the slot machine revenues. Accordingly, SIGA's revenue and expenses that comply with the approved policies are Liquor and Gaming's revenues and expenses. Liquor and Gaming includes those revenues and expenses in its financial statements.

In 2002-03, Liquor and Gaming had revenues of \$662 million, expenses of \$337 million, and net income of \$325 million. Liquor and Gaming's Annual Report 2002-03 includes its financial statements.

Our audit conclusions and findings

In our opinion, for the year ended March 31, 2003:

- ♦ Liquor and Gaming's financial statements are reliable;
- ♦ Liquor and Gaming had adequate rules and procedures to safeguard public resources except for the matters described in this chapter; and

- ♦ Liquor and Gaming complied with the authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters described in this chapter.

Expenditure without authority – Saskatoon casino

During the year, Liquor and Gaming authorized SIGA to spend \$446,000 to promote the establishment of a casino in Saskatoon. As stated earlier, SIGA's expenses are Liquor and Gaming's expenses. SIGA spent \$446,000 plus salaries of some of its senior staff to promote the establishment of a casino in the Saskatoon market. By allowing SIGA to spend public money to promote the establishment of a casino in Saskatoon, Liquor and Gaming became involved indirectly in promoting the establishment of a casino in Saskatoon.

Order in Council # 399/2002 dated June 11, 2002 authorized the Government to make the 2002 Framework Agreement with the Federation of Saskatchewan Indian Nations (FSIN). The 2002 Framework Agreement states that the Government does not intend to promote the establishment of a casino in Saskatoon. Under the Agreement, the FSIN is responsible for developing any casino in Saskatoon. The Agreement requires the FSIN to participate in community consultation and obtain the approval of Saskatoon City Council for any proposed casino. Through the Order in Council and the Agreement, Cabinet made the public aware of the Government's intention of not promoting the establishment of a casino in Saskatoon.

The 2002 Casino Operating Agreement allows SIGA to permit its employees to take leaves of absence to work for others, such as the FSIN, if SIGA ceases to pay salaries or benefits to such employees. SIGA allowed its employees to work with a Tribal Council to promote a casino in Saskatoon. However, SIGA continued to pay the salaries and benefits to those employees. We cannot determine the dollar value of the time SIGA's employees spent promoting the proposed casino in Saskatoon because SIGA does not have a record of the time spent by those employees promoting the Saskatoon casino.

By allowing SIGA to spend public money to promote the establishment of a casino in Saskatoon, Liquor and Gaming did not comply with Order in

Council #399/2002. We did not find another Order in Council specifically allowing Liquor and Gaming to promote the establishment of a casino in Saskatoon. Accordingly, the expenditure of \$446,000 plus the salaries paid to some of SIGA's senior staff to promote the establishment of a casino in Saskatoon is without authority. Our lawyer supports this position.

Management told us that under the Framework and Casino Operating Agreements, Liquor and Gaming has the authority to approve SIGA's expenses relating to the promotion and development of a Saskatoon casino proposal and that employees paid by SIGA can be involved in the promotion and development of the casino. Liquor and Gaming's lawyer supports this position.

Management of public money under SIGA's control needs improvement

Liquor and Gaming needs to continue to strengthen its management of public money under SIGA's control.

To implement the Framework Agreement¹ and because *The Criminal Code of Canada* gives only provinces the authority to conduct and manage electronic gaming devices, Liquor and Gaming and SIGA signed the Casino Operating Agreement². The Casino Operating Agreement permits SIGA to operate Liquor and Gaming's slot machines at SIGA's four casinos.

Under the Casino Operating Agreement, the revenue and expenses from the slot machines belong to Liquor and Gaming. In addition, Liquor and Gaming has the right to set SIGA's operating policies, determine what expenses SIGA can reasonably incur and deduct from the slot machine revenues, and approve SIGA's financial and business plans. These authorities are necessary because the expenses SIGA incurs to operate the slot machines are Liquor and Gaming's expenses.

Since November 2000, we have made recommendations for Liquor and Gaming to strengthen its management of public money under SIGA's control. Liquor and Gaming has made some progress, but much more

¹ A new Framework Agreement was signed in June 2002 – see Chapter 5B on page 146.

² A new Casino Operating Agreement was signed in June 2002 – see Chapter 5B on page 146.

work is needed. The Exhibit at page 140 lists the recommendations and their status at March 31, 2003.

In our previous reports, we said Liquor and Gaming needs to ensure SIGA complies with the Casino Operating Agreement and incurs and deducts only reasonable expenses from public money. To do so, Liquor and Gaming must:

- ◆ define reasonable expenses by setting SIGA's spending policies;
- ◆ set SIGA's casino operating policies;
- ◆ ensure SIGA has adequate processes to comply with the approved policies;
- ◆ frequently audit SIGA's operations to ensure:
 - SIGA complies with the approved operating policies and the Casino Operating Agreement;
 - SIGA incurs and deducts only reasonable expenses from public money; and
- ◆ recover any expenses that do not comply with the approved spending policies.

Liquor and Gaming decided to have SIGA propose its spending and operating policies to Liquor and Gaming. Liquor and Gaming would then review, amend if necessary, and approve those policies. By year-end or shortly thereafter, SIGA had proposed most of its spending and operating policies. At mid-October 2003 Liquor and Gaming has not yet approved any of these policies. Management told us that Liquor and Gaming has not done so because it asked SIGA to revise the policies.

We describe below the areas where Liquor and Gaming needs to do more work to ensure the proper management of public money under SIGA's control.

Setting spending policies and casino operating policies

In our past reports, we said that if SIGA is to continue to operate slot machines in its casinos for Liquor and Gaming, Liquor and Gaming must ensure SIGA uses good practices to manage public money. We made recommendations to improve SIGA's practices (Exhibit 1 on page 165). Those recommendations require SIGA to establish appropriate operating

policies and procedures, get Liquor and Gaming's approval, and then ensure that the staff follow those policies and procedures.

Salaries and benefits, and marketing (including promotion) are the two biggest expenses of SIGA. During 2003, SIGA spent approximately \$31.5 million (2002-\$27.8 million) for salaries and benefits, and approximately \$5.9 million (2002-\$6.0 million) for marketing its casinos. SIGA's ancillary operation (gift shops, restaurants, and lounges) is also significant. During 2003, SIGA had ancillary revenue of \$5.0 million (2002-\$4.7 million) and expenses of \$6.7 million (2002-\$6.1 million).

At mid-October 2003, Liquor and Gaming has not yet approved policies that set out what is reasonable for these expenses. Also, Liquor and Gaming continues to work towards ensuring that SIGA has appropriate operating policies for keeping complete and accurate records.

Because Liquor and Gaming has not yet approved the spending policies for SIGA, Liquor and Gaming may have paid for expenses that are not reasonable for operating the slot machines at SIGA's casinos. We continue to recommend Liquor and Gaming approve spending and operating policies for SIGA.

We reported this matter in our 2002 Fall Report – Volume 2 and in our previous reports. In May 2003, the Standing Committee on Public Accounts (PAC) concurred with our recommendation. During the meeting, Liquor and Gaming told PAC that it expects to implement all of our past recommendations by Spring 2004.

Monitoring SIGA's operations

In our past reports, we recommended that Liquor and Gaming should ensure it has adequate resources to audit SIGA and frequently audit SIGA to ensure compliance with the approved policies.

For 2003, Liquor and Gaming had an adequate plan to audit SIGA's Head Office operations and SIGA's casinos. However, Liquor and Gaming did not fully carry out that plan. Liquor and Gaming did not audit any of SIGA's casinos during 2003. Instead, Liquor and Gaming's inspectors did some of the audit procedures during inspection of SIGA's casinos.

Accordingly, Liquor and Gaming does not know if the casino staff fully complied with Liquor and Gaming's policies.

During the last two years, Liquor and Gaming has audited SIGA's Head Office operations. Liquor and Gaming found many instances of non-compliance with the approved policies (i.e., sponsorship, promotion).

Liquor and Gaming reported the non-compliance to SIGA's management. However, the non-compliance continued and Liquor and Gaming did not recover the unreasonable expenses.

Liquor and Gaming analyzes SIGA's monthly financial reports to ensure compliance with the budget Liquor and Gaming set for SIGA. This analysis involves reviewing the detailed monthly financial reports that compare the actual expenses with planned expenses. The financial reports provide explanations of differences between the actual expenses and planned expenses. The reports are supposed to help Liquor and Gaming to monitor SIGA. However, these financial reports are not adequate because they are not accurate.

For example, as part of budget approval, Liquor and Gaming authorized SIGA to spend up to \$100,000 for market development. Liquor and Gaming told us this amount was for promoting the establishment of a casino in Saskatoon. SIGA, however, spent \$446,000 plus the salaries for some of its senior staff for promoting the establishment of a casino in Saskatoon. SIGA recorded this cost in other expense categories. Because the financial reports did not show the actual expense for market development, Liquor and Gaming could not tell from the reports that SIGA had exceeded its market development budget for the Saskatoon casino by more than 300%. Later, when Liquor and Gaming became aware of the additional costs it did not take any action. Management told us Liquor and Gaming did not take any action because SIGA had not exceeded the approved overall expense budget.

We continue to recommend that Liquor and Gaming implement all of our past recommendations. (See Exhibit at page 140).

We reported this matter in our previous reports. In May 2003, PAC concurred with our recommendations. During the PAC meeting, Liquor

and Gaming told PAC that it expects to implement all of our past recommendations by Spring 2004.

Recovering unreasonable expenses

In our 2000 Fall Report – Volume 2, we said Liquor and Gaming must recover money for expenses that are not reasonable as provided in the agreements. Because SIGA has no money of its own, the 2002 Framework Agreement allows the Government to recover money from the First Nations Fund.

We had expected that by now Liquor and Gaming would have established a process to recover any unreasonable expenses that Liquor and Gaming identifies. As stated earlier, Liquor and Gaming did not recover money for expenses that did not comply with the policies Liquor and Gaming set for SIGA.

1. **We continue to recommend Liquor and Gaming recover money for SIGA's expenses that do not comply with approved spending policies.**

SIGA's business and financial plan

Liquor and Gaming received and approved SIGA's budget for 2003 and 2004 without receiving a complete business plan.

Liquor and Gaming must ensure SIGA prepares appropriate business and financial plans. SIGA did not prepare a business plan for 2003.

Management of SIGA could not do so because SIGA's Board of Directors had not prepared and communicated SIGA's strategic direction. Without a business plan, Liquor and Gaming cannot approve a proper budget because Liquor and Gaming does not know what SIGA wants to achieve, how it will do that, and what resources SIGA needs to achieve its objectives.

We reported this matter in our previous reports. We recommended that Liquor and Gaming ensure SIGA's Board prepares and communicates its strategic direction to management, and prepares complete business and financial plans. In May 2003, PAC considered this matter and concurred with our recommendation.

On March 29, 2003, SIGA's Board completed and communicated its strategic direction to management. Liquor and Gaming should ensure SIGA's strategic direction is consistent with Liquor and Gaming's direction.

We continue to recommend that Liquor and Gaming ensure:

- ◆ SIGA's Board prepares and communicates its long-term strategic direction to management; and
- ◆ SIGA prepares and submits for approval a complete business and financial plan setting out performance targets.

Management told us that Liquor and Gaming received SIGA's strategic plan on April 11, 2003 and that SIGA would prepare its business plan for 2004-05 by January 2004. Management also told us that in June 2003 Liquor and Gaming reviewed SIGA's strategic plan and provided comments to make SIGA's plan consistent with Liquor and Gaming's goals. At mid-October 2003, the strategic plan was not yet approved.

Electronic gaming devices need proper testing

Liquor and Gaming must establish standards for testing electronic gaming devices (slot machines and video lottery terminals) before making them available for public use.

Establishing standards for independent testing laboratories is important. Without such standards, the independent laboratories cannot provide assurance that the slot machines and VLTs they test for public use in Saskatchewan comply with Saskatchewan's gaming rules.

We also reported this matter in our 2002 Fall Report – Volume 2. In May 2003, PAC considered this matter and concurred with our recommendations.

We continue to recommend that Liquor and Gaming:

- ◆ establish standards for independent testing laboratories to use when testing slot machines and VLTs; and
- ◆ ensure that the laboratories use those standards to test Liquor and Gaming's slot machines and VLTs.

Management told us the Liquor and Gaming has drafted standards for testing slot machines and VLTs. Management told us that Liquor and Gaming is currently in the process of approving these standards.

Better monitoring of table games needed

Liquor and Gaming needs better rules and procedures to monitor table games at casinos.

Liquor and Gaming approves the rules of all table games played in Saskatchewan casinos. Table game rules include a planned house advantage. The planned house advantage is the percentage of the player's bet that the casino should retain over time if the game is played according to the approved rules. Monitoring house advantage for table games is cumbersome. For this reason many table game operators establish a range of expected "hold" for approved table games. Expected "hold" represents the revenue from table games that operator can expect to achieve. Gaming operators then monitor the actual hold on table games to the expected hold to ensure table games are generating revenue as expected.

Although Liquor and Gaming's staff observe table games to ensure gaming staff comply with approved rules, Liquor and Gaming does not have processes to regularly monitor gaming operators' house advantage or "hold" for table games.

Monitoring house advantage or the expected "hold" would provide added assurance that table games are played in accordance with the approved rules.

We reported this matter in our 2002 Fall Report – Volume 2. In May 2003, PAC considered this matter and concurred with our recommendation.

We continue to recommend that Liquor and Gaming establish processes to monitor regularly the actual house advantage or the expected "hold" for table games.

Management told us that gaming operators have begun monitoring the actual "hold" for table games. Management also told us that Liquor and Gaming is developing procedures for its inspectors to monitor house

advantage and/or "hold" for table games. In addition, management told us that Liquor and Gaming expects its inspectors will begin using these procedures by Spring 2004.

Better control over bank accounts needed

Liquor and Gaming needs to improve its control over its bank accounts.

Liquor and Gaming's established rules require staff to agree (reconcile) its recorded bank balances to the bank's records each month. The established rules also require management to review and approve the reconciliations. Regular reconciliation of recorded bank balances to the bank's records provides a check that all charges to the bank accounts are proper. It also provides a check on the accuracy and reliability of Liquor and Gaming's accounting records.

During the year, Liquor and Gaming did not regularly reconcile its bank accounts promptly. Staff did not reconcile some bank accounts for five months.

Three months after the year-end, Liquor and Gaming reconciled all recorded balances to the bank's records.

2. **We recommend that Liquor and Gaming follow its rules and procedures to reconcile promptly its recorded bank balances to the bank's records.**

Contingency plan needed

Liquor and Gaming needs to prepare a contingency plan for its computer systems and test the plan to ensure it works.

A contingency plan is important to Liquor and Gaming because it is dependent upon its computer systems. To provide continuous services, Liquor and Gaming must ensure its systems and data are available when needed. The contingency plan should cover all significant information technology operations based on the importance of each program and service.

A contingency plan is an important part of an agency's business interruption plans. Business interruption plans reduce the risks resulting from business disruptions due to unforeseen incidents including systems failure. Liquor and Gaming needs a written and tested contingency plan to ensure the recovery of systems and data in case Liquor and Gaming's electronic systems fail, or if key service providers' systems fail.

In prior years, Liquor and Gaming established some procedures to recover data and programs in case of systems failure. However, Liquor and Gaming does not yet have a complete and tested contingency plan. Once the plan is completed, the Board of Directors should approve it.

We reported this matter in our 1998 Fall Report – Volume 2 and in our later reports. PAC considered this matter in January 1999 and concurred with our recommendation.

We continue to recommend that Liquor and Gaming prepare a complete written contingency plan based on a risk analysis and test that plan to ensure it works.

Management told us that Liquor and Gaming continues to work toward completing its contingency plan.

Exhibit

Status of our past recommendations related to SIGA's management of public money as at March 31, 2003.

Recommendations relating to SIGA's management of public money	Year First Reported	Implemented	Partially Implemented	Not Implemented
1. Liquor and Gaming direct SIGA's Board to allow us full access to do our work directly	2000 Fall Report – Volume 2	✓		
2. Liquor and Gaming determine what SIGA payments to date (November 15, 2000) are not reasonable deductions from public money and recover that money as provided by the agreements.	2000 Fall Report – Volume 2	✓		
3. Liquor and Gaming ensure SIGA implements the recommendations we make in our 2000 Fall Report – Volume 2 ³ , and ensure it has necessary resources to frequently audit SIGA.	2000 Fall Report – Volume 2		✓	
4. Liquor and Gaming frequently audit SIGA's operations to ensure: - SIGA complies with the Framework and Casino Operating Agreements; and - SIGA incurs and deducts only reasonable expenses from public money.	2000 Fall Report – Volume 2		✓	
5. Liquor and Gaming recover any expenses that are not reasonable (on going basis).	2000 Fall Report – Volume 2			✓
6. Liquor and Gaming make public a list of persons who received public money from SIGA following the Standing Committee on Public Account's recommendations	2000 Fall Report – Volume 2	✓		

³ See Exhibit 1 on page 165 (SIGA's chapter)

Recommendations relating to SIGA's management of public money	Year First Reported	Implemented	Partially Implemented	Not Implemented
7. Liquor and Gaming prepare a formal training plan for its staff and should co-ordinate work among its branches.	1999 Spring Report	✓		
8. Liquor and Gaming work with SIGA to establish appropriate governance and conflict of interest policies for SIGA casinos.	1999 Spring Report	✓		
9. Liquor and Gaming ensure inspections/audits are completed as planned or document why the plan was changed.	1999 Spring Report		✓	
10. Liquor and Gaming document procedures for reporting and following up its audit/inspection findings with SIGA.	1999 Spring Report		✓	
11. Liquor and Gaming receive and formally approve SIGA's casino operating policies and procedures on a timely basis.	1999 Spring Report			✓
12. Liquor and Gaming work with SIGA to establish an internal audit function at SIGA.	1999 Spring Report		✓	
13. Liquor and Gaming receive and approve SIGA's budget on a timely basis and should have procedures for approving changes to the budget.	1999 Spring Report		✓	

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Main points

Under the 2002 Framework Agreement and the 2002 Casino Operating Agreement, Saskatchewan Indian Gaming Authority Inc. (SIGA) manages the slot machines in its four casinos for Saskatchewan Liquor and Gaming Authority (Liquor and Gaming). Liquor and Gaming decides the policies for operating the casinos. It expects SIGA to propose policies for Liquor and Gaming's approval.

At March 31, 2003, SIGA has not yet fully implemented all of our past recommendations. As a result, SIGA continues to make payments without due care. However, it has worked actively to propose policies to deal with our past recommendations. Near the end of the year or shortly after, SIGA's Board approved most of SIGA's new proposed policies. The next step for SIGA is to propose to Liquor and Gaming the rest of the policies and then get Liquor and Gaming's approval for all of the policies. SIGA can then ensure its staff understand and follow those policies.

Both, the Framework Agreement and the Casino Operating Agreement require SIGA to establish and comply with Liquor and Gaming approved policies for the operation of the casinos by August 15, 2005. SIGA faces a challenge to complete and implement all of the Liquor and Gaming's policies by August 15, 2005. If SIGA does not meet this condition, Liquor and Gaming may not allow SIGA to continue to operate Liquor and Gaming's slot machines.

SIGA needs to move quickly and get Liquor and Gaming's approval for spending and casino operating policies. It can then begin implementing those policies during 2004. We will assess the new policies and SIGA's compliance with those policies in 2004.

Introduction

The Saskatchewan Indian Gaming Authority Inc. (SIGA) is a non-profit corporation established under *The Non-Profit Corporations Act, 1995*. The members of SIGA are the Federation of Saskatchewan Indian Nations (FSIN), the Tribal Councils of Saskatchewan, and independent First Nations. SIGA operates four casinos in Saskatchewan. Those casinos provide table games, slot machines and other hospitality services (ancillary operations) to the public.

Saskatchewan Liquor and Gaming Authority (Liquor and Gaming) licensed SIGA to conduct and manage table games. SIGA is required to use the net profits from the operations of licensed table games for First Nations' charitable or religious purposes.

As required by section 207 of *The Criminal Code of Canada*, Liquor and Gaming owns the slot machines located in SIGA's casinos. The revenue from the slot machines belongs to Liquor and Gaming and is, therefore, public money. SIGA is allowed to deduct reasonable costs of operating casinos, as determined by Liquor and Gaming, from the slot machine revenues. SIGA is required to remit the remainder to Liquor and Gaming.

For the last five years, SIGA's casinos had the following net profits (losses). The casino operations include slot machines, table games, and ancillary (i.e., gift shops, restaurants and lounges).

Table 1 – Net profits (losses) of SIGA's casinos

Segment	2003	2002	2001	2000	1999
(in thousands)					
Slot operations	\$ 32,146	\$ 26,855	\$ 21,290	\$ 15,705	\$ 19,216
Ancillary operations	(1,742)	(1,400)	(2,009)	(1,830)	(1,270)
Table operations	(1,036)	(620)	(638)	(491)	(927)
Total	\$ 29,368	\$ 24,835	\$ 18,643	\$ 13,384	\$ 17,019

Table 1 shows that the net profits from the slot machines at SIGA's casinos increased from about \$27 million in 2002 to about \$32 million in

2003. Net profit from the slot machines increased for the following main reasons.

In 2003, Liquor and Gaming increased the number of slot machines in SIGA's casinos. During 2003, SIGA received 375 more slot machines for its casinos. While the average gross revenue per slot machine did not change significantly in 2003, the total slot machine revenue increased from \$68 million in 2002 to \$79 million in 2003 because of the additional slot machines.

For the same period, SIGA increased its total slot machine expenses by about \$6 million. In 2003, SIGA reduced the marketing and promotion expenses by about \$0.5 million, but increased the salaries and benefits by about \$2 million and other expenses by \$4.5 million.

Background

In February 1995, the Government of Saskatchewan and the FSIN made an agreement called the 1995 Framework Agreement that permitted the development and operation of casinos in Saskatchewan within the parameters of *The Criminal Code of Canada*. The 1995 Framework Agreement expired; and on June 11, 2002, the Government of Saskatchewan and the FSIN signed a new Framework Agreement (2002 Framework Agreement) effective from June 11, 2002 to June 11, 2027.

To implement the 1995 Framework Agreement, Liquor and Gaming and SIGA signed a Casino Operating Agreement in November 1995. The Casino Operating Agreement expired with the 1995 Framework Agreement. On June 11, 2002, Liquor and Gaming and SIGA signed a new Casino Operating Agreement (2002 Casino Operating Agreement) effective from June 11, 2002 to June 11, 2027.

To ensure the reasonability of costs for operating the slot machines for Liquor and Gaming, the 2002 Casino Operating Agreement requires Liquor and Gaming to approve SIGA's operating budgets and policies. The previous Casino Operating Agreement had similar requirements.

Liquor and Gaming expects SIGA to propose spending and casino operating policies for Liquor and Gaming's approval.

The net profits from the slot machine operations in SIGA's casinos go to the Government's General Revenue Fund (GRF) through Liquor and Gaming. The Government distributes a portion of those profits to the First Nations Fund and Community Development Corporations as required by *The Saskatchewan Gaming Corporation Act* and the 2002 Framework Agreement.

We audit SIGA for the Legislative Assembly because SIGA handles public money for Liquor and Gaming. Also, Liquor and Gaming directed SIGA's members to appoint the Provincial Auditor as their auditor. SIGA's members did so.

Our audit conclusions

In our opinion, for the year ended March 31, 2003:

- ♦ SIGA's consolidated financial statements are reliable;
- ♦ SIGA did not have adequate rules and procedures to safeguard public resources because of the matters reported in this chapter; and
- ♦ SIGA complied with authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters reported in this chapter.

Our audit findings

In our 2000 Fall Report – Volume 2, we made several recommendations to strengthen SIGA's rules and procedures to safeguard public money. SIGA accepted our recommendations and began to implement those recommendations.

In November 2000, to ensure effective implementation of our past recommendations, Liquor and Gaming set and communicated priorities (Directives) to SIGA. One of those Directives requires SIGA to accept and implement new policies and procedures mandated by Liquor and Gaming. Both the 2002 Framework Agreement and the 2002 Casino Operating Agreement require SIGA to achieve, by August 15, 2005, compliance with

those Directives. The Agreements also require SIGA to sustain that compliance for at least two consecutive years. If SIGA does not meet this condition, Liquor and Gaming may not allow SIGA to continue to operate Liquor and Gaming's slot machines.

At March 31, 2003, SIGA has not yet fully implemented all of our past recommendations. As a result SIGA, continues to make payments without due care. However, it has worked actively to propose policies to deal with our past recommendations. Near the end of the year or shortly after, SIGA's Board approved most of SIGA's new proposed policies. Under the Casino Operating Agreement, these policies now need to be approved by Liquor and Gaming. SIGA can then begin training staff to implement those new policies.

SIGA needs to move quickly to obtain Liquor and Gaming's approval so that SIGA can begin training its staff to implement those policies. SIGA faces a challenge to complete and fully implement the new policies to address our past recommendations and to meet Liquor and Gaming's Directives.

Exhibit I on page 165 summarizes our past recommendations and the status of the implementation of those recommendations as of March 31, 2003. We did not assess the activities after the year-end. We describe those activities in the Exhibit for information purposes only.

Assessment of internal auditor's work needed

In our past reports, we said that SIGA's Board needs independent assurance whether management safeguarded public resources and complied with authorities including the Board's delegation of authorities. We said that an independent internal audit function could provide this assurance. We recommended that SIGA should establish such a function. In May 2001, the Board made an agreement with a professional firm to provide internal audit services.

We need to assess the effectiveness of the internal auditor's work to comply with Canadian generally accepted auditing standards. To make this assessment, we must review the internal auditor's files and records (working papers). The agreement with the internal auditor did not provide

for our access to the internal auditor's working papers. Accordingly, we are unable to assess the effectiveness of the internal auditor's work.

When the Board signed its agreement with the internal auditor, it should have ensured that the agreement would allow us access to the internal auditor's working papers.

- 1. We recommend that SIGA amend its agreement with the internal auditor to allow us full access to the internal auditor's files and records.**

Management told us that SIGA would renegotiate the agreement with its internal auditor.

Bank accounts need proper controls

During the year, SIGA did not adequately control its bank accounts. As a result, SIGA may have paid for goods and services it did not receive.

To adequately control its bank accounts, SIGA needs to:

- ♦ establish written guidance to accounting staff about the nature of support and authorization required before making payments;
- ♦ ensure staff follow the guidelines;
- ♦ adequately segregate duties of its employees; and
- ♦ independently agree recorded bank balances with the bank's records.

During the year, SIGA did not have written guidance for accounting staff about the nature of support and authorization required before making payments and for making changes to the financial records. More than 30% of the transactions we examined had insufficient evidence to know that SIGA only paid for authorized goods and services, and that the goods and services were received. Accordingly, SIGA may have paid for goods and services that were not authorized or may not have been received.

SIGA needs to provide written guidance to accounting staff about the nature of support required before making payments. The Chief Financial Officer (CFO) needs to tell the staff that they need evidence that the

goods and services purchased were authorized, the goods and services have been received, and invoices were received for the goods and services before making payments. The CFO also needs to ensure that staff are following the written guidance.

For the year ended March 31, 2003, SIGA had ancillary revenue of \$5.0 million and incurred expenses of \$6.7 million. SIGA's ancillary operations consist of restaurants, gift shops, and lounges located at its casinos. SIGA has not yet fully established rules and procedures for its ancillary operations. We had expected that by now SIGA would have policies and procedures for controlling cash, inventory (including purchases), pricing, and monitoring operations.

In addition, SIGA did not adequately segregate the duties of its employees. Segregation of duties is not adequate when an employee or a group of employees can conceal the improper use of money without ready detection. Many employees who had authority to order goods and services could also receive the goods and services ordered and authorize payments for those goods and services. As a result, SIGA may have paid for goods and services that it may not have received.

SIGA did not independently agree the recorded bank balances with the bank's records for several months during the year. We also noted that staff did not promptly investigate and record the differences between the accounting records and the bank's records. This deficiency could allow the improper use of money to go undetected. Also, there is a risk that the financial information provided to the Board may be incorrect. Incorrect financial information may result in incorrect or inappropriate decisions by the Board.

SIGA needs to establish and communicate to the staff procedures for agreeing the recorded bank balances to the bank's records and for making changes to financial records. SIGA then needs to properly supervise staff to ensure that procedures are carried out.

Written rules and procedures, and proper supervision help ensure that staff know what they are supposed to do and where to get help when needed.

We also reported these matters in our 2002 Fall Report – Volume 2 and our previous reports. On May 29, 2003, the Standing Committee on Public Accounts (PAC) considered these matters and concurred with our recommendations.

We continue to recommend that SIGA establish accounting policies and procedures to ensure:

- ♦ its books and records reflect its business operations;
- ♦ it has adequate support for all transactions; and
- ♦ it has adequately segregated the duties of its employees.

Management told us that as of March 31, 2003, SIGA's Board has approved policies for purchasing goods and services setting out the nature of support and authorization required before making payments and some policies for controlling inventory and cash for the ancillary operations. Those policies need Liquor and Gaming's approval. We will assess those policies once they are approved by Liquor and Gaming.

Complete human resource policies needed

SIGA needs to complete its human resource policies. Salaries and benefits is SIGA's biggest expense. We had expected by now it would have completed those policies.

Like all organizations, SIGA needs employees to help it carry out its plans and achieve its goals. SIGA employed approximately 1,100 people in 2002-03. About 70% of SIGA's employees were members of First Nations. SIGA's goal is to increase the proportion of its employees who are members of First Nations from 70% to 80%¹.

As an employer in the hospitality industry, SIGA needs a capable workforce to meet client service expectations, maintain security, and avoid costly mistakes. Good human resource systems will help SIGA to build a capable workforce and achieve its goals and objectives.

SIGA has not yet established a wage grid for senior management and has not established development (training) guidelines for all of its

¹ *Saskatchewan Indian Gaming Authority Annual Report 2001-2002*, p.15

employees. Further, SIGA has not yet established performance evaluation guidelines for most of its employees. In addition, SIGA has not yet established policies and procedures for providing staff benefits (use of vehicles, computers, cell phones, etc.).

In our 2002 Fall Report – Volume 2 and in our prior reports, we recommended that SIGA establish complete written policies for management and staff pay, benefits, development, and performance evaluation. On May 29, 2003, PAC considered this matter and concurred with our recommendation.

We continue to recommend that SIGA establish complete written policies for management and staff pay, benefits, development, and performance evaluation.

Management told us that in May 2003, the Board approved a cellular phone policy setting out who is entitled to a cellular phone and requiring employees to provide details of personal usage. Liquor and Gaming needs to approve this policy. We will assess the new policy once it is approved by Liquor and Gaming.

Building human resource capacity

In our 2002 Fall Report – Volume 2, we said we planned to examine SIGA's processes to build human resource capacity. We wanted to determine whether SIGA has adequate human resource systems to build its human resource capacity. We have now completed our assessment.

We used the criteria listed in Table 2 below to make our assessment. Criteria are reasonable and attainable standards of performance and control against which auditors can assess the adequacy of processes. SIGA agreed that the criteria are reasonable and attainable.

Table 2 – Audit criteria

To be adequate, SIGA's systems to build its human resource capacity should:

1. Align its human resource plan with the strategic plan and business and financial plan
2. Obtain a competent workforce (e.g., through recruitment, secondment, promotion, transfer)
3. Provide relevant learning opportunities
4. Retain a competent workforce

We concluded that SIGA's human resource systems are not adequate to build human resource capacity.

During the year, SIGA developed a strategic plan. As part of its strategic planning, SIGA considered its human resource challenges. Its strategic and business unit plans, finalized at the end of the audit period, will help SIGA manage its human resource challenges. SIGA plans to develop a comprehensive human resource plan.

The comprehensive human resource plan is not yet complete. During strategic planning, however, management addressed and documented draft processes to deal with the challenges that SIGA faces to build its human resource capacity. SIGA needs to continue to work on those processes to ensure that casinos follow all established human resource policies, management provides more information to the Board on how it manages the staff retention risks, and the effectiveness of SIGA's training activities.

The following recommendations are designed to help SIGA improve its processes.

2. We recommend that SIGA:

- ♦ complete and implement its human resource plan;
- ♦ ensure its casinos consistently follow established human resource policies;

- ♦ prepare and provide to the Board more information about how SIGA is managing its staff retention risks; and
- ♦ prepare and provide to the Board more information about the effectiveness of SIGA's training activities.

Management told us that SIGA has begun to address these recommendations.

On pages 160 to 164, we provide detailed findings about SIGA's systems to build human resource capacity.

Policies and procedures for marketing and promotion activities needed

For the year ended March 31, 2003, SIGA did not have policies and procedures for ensuring marketing and promotion spending is effective.

Marketing and promotion (marketing) is SIGA's second largest expense. SIGA spent approximately \$5.9 million (2002-\$6.0 million), excluding sponsorships, for marketing of its casinos.

In our 2002 Fall Report – Volume 2 and in our previous reports, we recommended that SIGA establish policies and procedures for its marketing and promotion activities. On May 29, 2003, PAC considered this matter and concurred with our recommendation.

We continue to recommend that SIGA establish and communicate to its employees policies and procedures for marketing and promotion activities including a clear definition of marketing activities. Those policies and procedures should include a process for approving such activities. This process should require employees to prepare a business case for all significant marketing proposals. SIGA could then monitor whether its marketing activities contributed to its revenue generating activities and learn lessons for future marketing projects.

On March 28, 2003, SIGA's Board approved a marketing policy. The policy specifically defines marketing activities, requires marketing plans

and cost-benefit analyses, and sets out a process for approval. This policy needs Liquor and Gaming's approval.

At the time of our audit, Liquor and Gaming had not approved the marketing policy. We will assess the new policy once the policy is approved.

Strategic, and business and financial plans needed

SIGA's Board did not approve a strategic plan setting out SIGA's goals, objectives, and priorities until the end of the year. Because SIGA's Board did not have a timely approved strategic plan, management could not prepare an adequate business and financial plan for 2002-03.

In our 2002 Fall Report – Volume 2 and prior reports, we recommended that SIGA's Board document and communicate to its senior management the goals and objectives of SIGA. We also recommended that SIGA prepare a complete business and financial plan for its operations.

On May 29, 2003, PAC considered this matter and concurred with our recommendations.

On March 28, 2003, SIGA's Board approved a strategic plan setting out SIGA's goals, objectives, and priorities. Management also prepared a business and financial plan for 2003-04 setting out action plans to accomplish the goals and objectives set by the Board. These plans need Liquor and Gaming's approval.

At the time of our audit, Liquor and Gaming had not yet approved SIGA's strategic plan or SIGA's business and financial plan for 2003-04. We will assess SIGA's strategic plan and its business and financial plan when those plans are approved by Liquor and Gaming.

Board needs to set its operational performance reporting requirements

The Board has not yet set out the operational performance information it needs and when it needs that information to oversee SIGA's operations. Operational performance information should show what the Board wanted

SIGA to achieve and how SIGA is progressing towards achieving those expectations.

In our 2002 Fall Report – Volume 2 and our previous reports, we recommended that SIGA's Board define its operational and financial information needs and communicate those needs to management for regular reporting. On May 29, 2003, PAC considered this matter and concurred with our recommendation.

On March 7, 2003, the Board specified its financial reporting needs. Next year, we will assess how well management complies with the Board's new reporting requirements.

Because the Board had not approved the strategic plan for SIGA until March 28, 2003, it had not specified what operational performance information it needs to oversee SIGA's operations. We continue to recommend that SIGA's Board should set out its operational performance reporting needs to oversee SIGA's operations.

Staff need to comply with the approved sponsorship policy

SIGA needs to ensure that staff follow the established rules and procedures when doing their assigned duties. We noted that the staff did not always comply with the approved sponsorship policy. In 2003, SIGA spent approximately \$1.8 million (2002-\$2.0 million) on sponsorship.

SIGA has established a sponsorship policy that Liquor and Gaming has approved. The policy sets out processes for responding to requests for sponsorship from SIGA. To implement the approved policy, the Board established a Sponsorship Advisory Committee to approve and monitor sponsorship spending. The Board also set out guidelines for the Committee. Those guidelines describe who may be eligible for financial support, SIGA's priorities, and processes to ensure that the recipients of financial support spend the money for the approved purposes.

The Board established appropriate policies for sponsorship spending that provided direction for ensuring the recipients of financial support spend the money for the approved purposes. However, management did not ensure that staff followed the approved sponsorship policy.

In our 2002 Fall Report – Volume 2, we recommended that SIGA ensure that the staff comply with the sponsorship policy. On May 29, 2003, PAC considered this matter and concurred with our recommendation.

The following are some examples of sponsorship spending that did not comply with the approved policy.

Inappropriate payments to teams and individuals

The approved policy allows SIGA to sponsor those teams and individuals that have earned the right to represent their province and/or country at national or international events. During the year, SIGA paid approximately \$55,000 to sponsor certain individuals and teams that did not qualify for sponsorship under the approved policy.

SIGA did not provide evidence that these teams and individuals had earned the right to represent Saskatchewan or Canada in national or international events. Also, SIGA seldom checked to ensure that the teams and individuals spent the money for approved purposes.

Incomplete applications

The sponsorship policy requires that SIGA must receive all applications and requests for sponsorship in writing and in a form prescribed by the Board.

We noted 28 instances where the applicants did not apply in writing or submitted incomplete applications. Nor did we always find evidence that SIGA had ensured that the money paid was used for the purposes intended. Accordingly, SIGA's staff did not comply with the approved policies.

We continue to recommend that SIGA ensure that the staff comply with the sponsorship policy.

Table games need better monitoring

SIGA needs to strengthen its rules and procedures to ensure that table games are played in accordance with the rules approved by Liquor and Gaming, and to ensure all table games' revenues are received.

Under law, Liquor and Gaming approves the rules of table games including betting limits, house advantage, and use of technology in the game. House advantage is the theoretical percentage of players' bets that SIGA should retain over time. The house advantage varies depending on the rules of a particular game and the technology used (e.g. automatic card shufflers).

Table games and surveillance staff regularly monitor how the games are played to ensure they are played in accordance with the rules. However, SIGA does not regularly monitor the actual house advantage. Monitoring house advantage for table games is cumbersome. For this reason, many table game operators establish a range for the expected "hold" for approved table games. Expected "hold" represents the revenue from table games that operators can expect to obtain. Gaming operators then monitor the actual hold on table games to the expected hold to ensure table games are generating revenue as expected.

SIGA did not randomly monitor the actual house advantage for some table games. Nor did SIGA establish and communicate to its gaming staff the ranges for the expected "hold" for each type of table game. As a result, SIGA does not know if it is receiving all the revenue from table games.

In our 2002 Fall Report – Volume 2, we recommended that SIGA:

- ♦ periodically monitor the actual house advantage for table games to ensure games are being played in accordance with approved rules; and
- ♦ establish appropriate rules and procedures to monitor expected and actual revenue of table games and communicate these to casino staff.

On May 29, 2003, PAC considered this matter and concurred with our recommendations.

Management told us that effective April 2003, SIGA calculated expected "hold" for each table game and established a database to track table game revenues. Liquor and Gaming needs to approve the calculated expected "hold" for the table games. We will assess next year how well SIGA has improved its monitoring of table games.

Better public reporting needed

Liquor and Gaming provided SIGA guidelines for an annual report policy. In March 2001, the Board approved an annual report policy for SIGA. The approved policy requires SIGA to complete and submit to Liquor and Gaming an annual report beginning with the fiscal year ending March 31, 2001. SIGA must complete its annual report no later than September 30.

The policy requires that the annual report should include:

- ♦ a statement of Mission, Vision, Values and Objectives;
- ♦ a listing of all Board members and senior management;
- ♦ a description of governance practices;
- ♦ a description of operations including an organization chart;
- ♦ a description of key performance indicators;
- ♦ a description of accomplishments including a comparison of planned to actual results;
- ♦ an identification of key risks and a description of systems and practices to manage these risks; and
- ♦ a complete set of audited financial statements.

The policy also requires SIGA to provide to Liquor and Gaming a list of persons (e.g., employees, suppliers) who received money from SIGA and the amount each person received.

SIGA provided its annual report for the year ended March 31, 2002 to Liquor and Gaming on October 25, 2002.

SIGA's 2002 annual report did not contain SIGA's specific objectives, a listing of senior management, a description of key performance indicators, a comparison of planned and actual results, a description of key risks, and systems and practices in place to manage these risks. Accordingly, SIGA did not comply with its annual report policy.

SIGA provided Liquor and Gaming a list of persons who received money from SIGA and the amount each person received in the year ended March 31, 2002. On August 28, 2002, Liquor and Gaming gave the Legislative Assembly SIGA's audited financial statements for the year ended March 31, 2002 and the list of persons who received money from SIGA during the year.

We also reported this matter in our 2002 Fall Report – Volume 2 and recommended that SIGA comply with its annual report policy. On May 29, 2003, PAC considered this matter and concurred with our recommendation.

We continue to recommend that SIGA comply with its annual report policy.

Building human resource capacity

Key findings

We set out below our expectations (in italics) for each of the criteria, together with our key findings.

Align human resource plan with strategic plan and business and financial plan

We expected SIGA to:

- ♦ *link the strategies and actions of the human resource plan to the organization's strategic plan as well as to its business and financial plan;*
- ♦ *assess the availability of human resources and select strategies and actions to address its staffing needs; and*
- ♦ *prepare and provide to the Board regular reports on human resource needs and supply issues, strategies and actions, and the status of achievement of key human resource targets.*

An organization's human resource plan should assist the organization to achieve its overall goals. The human resource plan should do this within the limits of the organization's resources. The link between the human resource plan and an organization's strategic plan and business and financial plan is essential to help the organization achieve its goals in a cost-effective and timely way.

Developing a human resource plan gives management an understanding of both current and future needs. These needs include identifying what competencies (knowledge, skills and abilities) the organization needs to achieve its strategic goals and objectives. These needs also include

forecasts of the number and type of employees the organization will need, and the time frame when they are required.

During the year, SIGA did not have a complete, comprehensive human resource plan. However, we found elements of human resource planning in several different documents. Most of these were being developed during the year, although some elements became final by the end of the year. SIGA aligned the draft human resource planning elements with its strategic plan that became final (pending Liquor and Gaming approval) at the end of the year.

SIGA's strategic plan and business unit plan include elements of human resource planning. The draft succession plan and draft staff retention guidelines also included elements of human resource planning. Management told us SIGA is currently preparing a separate comprehensive human resource plan.

The elements of human resource planning we examined identify competencies staff need to achieve SIGA's goals and objectives. We did not find any evidence of written forecasts for the continued availability of needed staff. Management told us that SIGA is aware of the staff turnover rate.

The strategic plan and business unit plan that were finalized at the end of the year described general strategies to address human resource needs. The plans identify who is responsible and include completion dates. The draft staff retention guidelines also included how to address SIGA's staffing needs.

Management receives regular updates on staffing information from the casinos. This includes numbers of new staff, vacancies, and interviews for positions. It also includes numbers for full-time and part-time or casual staff as well as numbers for First Nations and non-First Nations staff. SIGA is also developing a human resource management information system to assist in managing employee information. Management provides regular briefs on human resource issues to the Board. The Board has also considered some draft human resource policies.

Because SIGA has not yet fully completed its human resource plan, it could not evaluate the effectiveness of its plan. Management told us that

SIGA plans to measure the effectiveness of human resource initiatives when all planning is complete and implemented.

SIGA needs to fully complete its human resource plan and evaluate the effectiveness of its plan.

Obtain a competent workforce

We expected SIGA to:

- ♦ *evaluate requests for new staff using its human resource plan;*
- ♦ *consider alternate methods to advertise and fill positions in order to attract candidates with required competencies;*
- ♦ *develop criteria and use the criteria to evaluate candidates for required competencies and document how the successful candidate meets the appropriate competencies and experience; and*
- ♦ *prepare and submit to the Board regular reports on staffing activities to help it evaluate the effectiveness of the staffing process and make timely modifications.*

To accomplish its strategic goals and objectives, SIGA needs to obtain a competent workforce. The process of obtaining a competent workforce includes attracting candidates with the required competencies, and selecting and employing the appropriate candidate. SIGA can achieve this objective through new hires, promotion of existing employees, and secondment from other organizations.

SIGA's human resource plans were under development during the year. Thus, the plans could not be used as a guide to assess requests to create new positions or to fill existing positions. However, we noted the Board approved and SIGA implemented a system to review staffing requests. SIGA provided guidance to staff on how requests should be evaluated and suggested alternate methods of attracting candidates with the required competencies.

SIGA evaluated candidates for positions using these established processes. However, for positions at casino sites, staff did not routinely check candidates' personal references. SIGA needs to ensure that all its casinos consistently follow established human resource policies.

Management receives reports on staffing activities from the casinos. This includes numbers of new staff, vacancies, and interviews for positions. It also includes numbers for full-time and part-time or casual staff as well as numbers of First Nations and non-First Nations staff. The Board is regularly briefed on human resource issues.

SIGA has plans to further evaluate the staffing process and develop criteria for evaluating recruitment and hiring.

Provide relevant learning opportunities

We expected SIGA to:

- ♦ *develop and implement learning plans (responsive to individual career development) based on the competencies it needs to achieve its organizational goals;*
- ♦ *prepare and provide to the Board regular reports on learning activities; and*
- ♦ *evaluate the effectiveness of its learning opportunities (training) and modify learning plans when necessary.*

Providing relevant learning opportunities begins with the development of learning plans. Learning plans help an organization determine its learning priorities and set specific objectives. Learning plans are a means by which an organization analyses the costs and benefits of alternate approaches to meet training needs.

During the year, SIGA was developing its learning strategy. Parts of that strategy were approved at the end of the year. These plans were at the group and organization level.

The plans included some general learning objectives but did not specify methods. The plans did not analyze the costs and benefits of alternate approaches to meeting staff training needs. The plans, however, did identify broad spending targets for training and development.

Management prepared and submitted to the Board some information about SIGA's learning activities. This information showed training courses some casino staff took during the period. However, the information should also include the staff training costs, level of employee participation, and

ongoing staff training needs. Also, we did not see any evidence that the Board received information about the effectiveness of learning activities.

Management told us SIGA is currently developing a new learning plan.

Retain a competent workforce

We expected SIGA to:

- ♦ *identify risks to retention and set out plans to manage those risks;*
- ♦ *identify key employees who possess valuable competencies for SIGA and to develop and select plans to safeguard against the loss of those employees; and*
- ♦ *prepare and submit to the Board regular reports on risks to staff retention, how it manages those risks, and the status of achievement of retention targets.*

Retaining a competent workforce is essential to SIGA's successful operation. While a healthy level of turnover introduces new ideas and energy into an organization, excessive turnover can be detrimental. Excessive turnover creates increased financial costs, loss of knowledge, skills and abilities, and decreases productivity during the search for replacements.

SIGA was developing retention and succession plans during the year. SIGA has draft plans that describe the risks involved in retaining a competent workforce. These plans set out risks related to retention and succession and outline methods of managing the risks. SIGA's Employee and Family Assistance Plan, which helps staff who are facing difficulties, is one notable method of managing risks to retention.

SIGA does not have a formal system to identify the key people that it wants to retain for the future. Management told us SIGA plans to do so.

We did not find evidence that management prepares and submits to the Board regular information about how SIGA planned to manage the staff retention risk or how well it was managing this risk. SIGA should do so. Regular assessments would help the Board to evaluate the effectiveness of its staff retention processes and to modify processes when necessary.

Exhibit 1

Status of the implementation of our past recommendations as at March 31, 2003.
Activities after the year-end have been included for information purposes only.

Recommendations	Year First Reported	Date policy/info sent to Liquor and Gaming	Date policy/info approved by Liquor and Gaming	Date Revised policy submitted	Implemented	Partially Implemented	Not Implemented
1. SIGA should establish a proper code of conduct and that code of conduct should be appropriate for managing public money.	2000 Fall Report – Volume 2	N/A	November 2000 Directive	N/A	✓		
2. SIGA should document and communicate to its senior management the goals and objectives of SIGA	2000 Fall Report – Volume 2	Draft Strategic Plan – April 2003	Not Approved Required changes provided – June 2003			✓	
3. SIGA's Board should establish an appropriate conflict-of-interest policy for Board members and management.	2000 Fall Report – Volume 2	N/A	November 2000 Directive	N/A	✓		
4. SIGA's Board should ensure all Board members and senior management comply with the established conflict-of-interest policy.	2000 Fall Report – Volume 2	N/A	November 2000 Directive	N/A	✓		

Recommendations	Year First Reported	Date policy/info sent to Liquor and Gaming	Date policy/info approved by Liquor and Gaming	Date Revised policy submitted	Implemented	Partially Implemented	Not Implemented
5. SIGA should prepare a complete business and financial plan for its operations.	2000 Fall Report – Volume 2	Draft business plan – April 2003	Not Approved Required changes provided – June 2003				✓
6. SIGA's Board should define its management reporting needs and communicate those needs to management for regular reporting. - Financial reporting - Performance reporting	2000 Fall Report – Volume 2	April 2003 Not yet done	N/A	N/A		✓	
7. SIGA should establish an independent internal audit function that should report directly to the Board.	2000 Fall Report – Volume 2	N/A	November 2000 Directive	N/A		✓	
8. SIGA should report publicly through FSIN, and Liquor and Gaming setting out SIGA's planned results and actual results.	2000 Fall Report – Volume 2	N/A	November 2000 Directive	N/A			✓

Recommendations	Year First Reported	Date policy/info sent to Liquor and Gaming	Date policy/info approved by Liquor and Gaming	Date Revised policy submitted	Implemented	Partially Implemented	Not Implemented
9. SIGA should make public through FSIN, and Liquor and Gaming a list of persons (e.g., employees, suppliers) who have received money from SIGA and the amount each person received.	2000 Fall Report – Volume 2	N/A	November 2000 Directive	N/A	✓		
10. SIGA's Board should establish appropriate delegation of authority rules for management.	2000 Fall Report – Volume 2	N/A	November 2000 Directive	N/A		✓	
11. SIGA should establish written policies for management and staff pay, benefits, professional development, and performance evaluation.	2000 Fall Report – Volume 2	Senior Mgt. Wage Grid – May 2003 Cell phones and Vehicles – July 2003	Not Approved More information required – August 2003.			✓	
12. SIGA should establish an appropriate travel policy for Board members and executive management expenses including spousal travel, business expenses, and travel advances.	2000 Fall Report – Volume 2	N/A	November 2000 Directive	N/A	✓		

Recommendations	Year First Reported	Date policy/info sent to Liquor and Gaming	Date policy/info approved by Liquor and Gaming	Date Revised policy submitted	Implemented	Partially Implemented	Not Implemented
13. SIGA should establish adequate policies and procedures to ensure its books and records reflect its business operations and there is support for all transactions.	2000 Fall Report – Volume 2	April 2003	Not Approved Required changes provided – May 2003				✓
14. SIGA should establish appropriate written policies and procedures for tendering and awarding contracts.	2000 Fall Report – Volume 2	N/A	November 2000 Directive	N/A	✓		
15. SIGA should establish appropriate policies and procedures for its marketing, promotion, and sponsorship activities. Those policies and procedures should include a clear definition of marketing and promotion activities and an approval process for sponsoring community events.	2000 Fall Report – Volume 2	April 2003 Marketing policy Resubmitted July 2003 Sponsorship and promotion policy N/A	Not Approved Required changes provided – August 2003 November 2000 Directive for sponsorship and promotion				✓

Recommendations	Year First Reported	Date policy/info sent to Liquor and Gaming	Date policy/info approved by Liquor and Gaming	Date Revised policy submitted	Implemented	Partially Implemented	Not Implemented
16. SIGA should establish rules and procedures to ensure that only authorized persons can access its financial systems.	2001 Fall Report – Volume 2	N/A	N/A	N/A	✓		
17. SIGA should properly segregate the duties of its employees.	2001 Fall Report – Volume 2	April 2003	Not Approved Required changes provided – May 2003				✓
18. SIGA should establish rules and procedures to ensure compliance with the Casino Operating Agreement.	2001 Fall Report – Volume 2	N/A	N/A	N/A		✓	
19. SIGA should incur only costs necessary to operate its casinos under the Casino Operating Agreement.	2002 Fall Report – Volume 2	N/A	N/A	N/A		✓	
20. SIGA should ensure the staff comply with the sponsorship policy.	2002 Fall Report – Volume 2	N/A	November 2000 Directive				✓
21. SIGA should establish rules and procedures to ensure that staff comply with its delegation of authority policy.	2002 Fall Report – Volume 2	N/A	November 2000 Directive			✓	

Recommendations	Year First Reported	Date policy/info sent to Liquor and Gaming	Date policy/info approved by Liquor and Gaming	Date Revised policy submitted	Implemented	Partially Implemented	Not Implemented
22. SIGA should: -periodically monitor the actual house advantage for table games to ensure games are being played in accordance with approved rules; and -establish appropriate rules and procedures to monitor expected and actual revenue of table games and communicate these to casino staff.	2002 Fall Report – Volume 2						✓
23. SIGA should comply with the terms and conditions of its gaming licence.	2002 Fall Report – Volume 2	N/A	November 2000 Directive	N/A	✓		
24. SIGA should comply with its annual report policy.	2002 Fall Report – Volume 2	N/A	November 2000 Directive	N/A			✓

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Main points

In this chapter, we set out the results of our audits of the Department of Justice and the agencies it manages for the year ended March 31, 2003.

The Department needs to have better processes to track, enforce, and collect fines. The Department does not know if it has enforced all fines and charges. This lack of adequate rules and procedures could result in the Department not achieving its goals of safer communities and upholding the rule of law.

The Department needs an adequate contingency plan for its information technology systems. Without such a plan, the Department risks missing commitments, delaying decisions, and losing essential data.

The Department relies on its internal auditor to provide it with information on the effectiveness of the Department's processes to safeguard public resources and ensure that it complies with the law. The Department should focus the audit work on the processes and transactions where the Department is at greatest risk of loss of public money or spending money for unintended purposes.

We also report a follow-up of our recommendations in our 2002 Fall Report – Volume 2 of our audit of the Department's capital assets plan. We found that the Department now has adequately implemented our recommendations for its capital assets plan.

Introduction

The mandate of the Department of Justice is to promote safe communities, social and economic order, and fair and just relations through the operation of an independent, impartial, and effective justice system. The justice system is to uphold the rule of law and protect the basic legal rights of citizens.

The Department provides legal services for the Government, and justice and police services for the people of Saskatchewan. The Department also administers registry systems for corporations and local registrars (including trust accounts), and regulates pensions, credit unions, and businesses.

The Government's summary financial statements show expenditures of \$302 million for the year ended March 31, 2003 (March 31, 2002 - \$299 million) for the protection of persons and property.

The following table shows the total government expenditures for protection of persons and property by agency.

	(in millions of dollars)	
	2003	2002
Department of Justice	\$ 184	\$ 237
Department of Corrections & Public Safety	116	---
Less expenditures by Justice and Corrections for purposes other than the protection of persons and property	(53)	(15)
Information Services Corporation of Saskatchewan	38	54
Department of Labour	14	13
Other government agencies	3	10
	<u>\$ 302</u>	<u>\$ 299</u>

During the year, the Department also earned revenues of \$67 million. Information about the Department's revenues and expenditures appears in the Department's 2002-2003 annual report, see <http://www.saskjustice.gov.sk.ca>.

The following is a list of the Department's major programs and spending as reported in the 2002-03 Public Accounts:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Community justice	\$ 93	\$ 93
Court services	34	34
Marketplace Regulation	4	4
Accommodation and central services	12	12
Legal services	17	18
Administration	4	4
Boards and commissions	20	19
	<u>\$ 184</u>	<u>\$ 184</u>

The Department is also responsible for the operations of several trust and special purpose funds and Crown agencies with years ending March 31, 2003. These include:

Judges of the Provincial Court Superannuation Plan
Law Reform Commission of Saskatchewan
Office of the Rentalsman Trust Account
Provincial Mediation Board Trust Account
Public Guardian & Trustee of Saskatchewan
Queen's Printer Revolving Fund
Saskatchewan Legal Aid Commission
Saskatchewan Legal Aid Commission Pension Plan
Trust Accounts at Court House, Local Registrars, and Sheriff's Offices
Victims' Fund

Our audit conclusions and findings

In our opinion, for the year ended March 31, 2003:

- ♦ the financial statements for the funds and agencies are reliable;
- ♦ the Department and its funds and agencies had adequate rules and procedures to safeguard public resources except where we report otherwise in this chapter; and

- ♦ the Department and its funds and agencies complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except where we report otherwise in this chapter.

System to track, enforce, and collect fines needs improvement

The Department is responsible to track, enforce, and collect fines for offences under various provincial and federal laws. The purpose of a deterrent such as a fine or jail is to discourage the public from violating the law. If deterrents are not enforced, they will not be effective. Without effective deterrents, our communities will be less safe.

The Department's processes for administering fines include:

- ♦ controlling the distribution and receipt of tickets to and from law enforcement agencies;
- ♦ ensuring the accurate and complete recording, tracking, and enforcement of tickets;
- ♦ controlling the recording and receipt of fine payments; and
- ♦ collecting unpaid fines.

The Department told us that law enforcement agencies issue between 130,000 and 150,000 tickets each year.

In this section, we describe weaknesses in the Department's processes to distribute tickets, record issued tickets, and collect unpaid fines.

The distribution and receipt of tickets

The Department needs to improve its processes for the distribution and receipt of tickets and informations. Informations are charges or complaints made under *The Criminal Code of Canada*. Improvements in processes are necessary so that the Department properly enforces fines

and criminal charges. Several provincial government agencies, as well as other levels of government (i.e., federal and municipal), rely on the Department to enforce fines and charges issued under various provincial and federal laws.

For purposes of this chapter, we refer to tickets and informations as tickets. Tickets may result in either fines or criminal charges.

We expected the Department to have processes to know:

1. the tickets it has distributed to law enforcement agencies;
2. the tickets issued by law enforcement agencies; and
3. unissued tickets.

We expected the Department to have cost-effective processes that track tickets directly or require law enforcement agencies (agencies) to provide it with periodic reports on their tracking of tickets. If the Department used reports from agencies to track tickets, we expected it to verify the reliability of those reports.

The Department does not have adequate processes to track distributed tickets. It does not keep track of which agencies received informations from the Department. In addition, it does not consistently follow its processes to track distributed tickets. In 2002-03, the Department did not track which agencies received 7% of its distributed tickets.

The Department does not have processes directly or through agencies to track issued and unissued tickets it distributed to agencies. As a result, it does not know if it has recorded all tickets issued by agencies. Our tests show that the Department cannot account for tens of thousands of tickets distributed to agencies over the past five years. The Department does not know if these missing tickets have been issued, voided, cancelled, or lost. As a result, the Department does not know if it has enforced all fines and criminal charges. This lack of rules and procedures could result in the Department not achieving its goals of safer communities and upholding the rule of law.

On February 18, 2002, the Standing Committee on Public Accounts (PAC) considered this matter and agreed with our recommendations. At this meeting, the Department told PAC that it was not able to track issued

tickets because of a lack of fiscal resources and underlying information technology systems.

We think it is possible to have a cost-effective process for tracking tickets. For example, as noted previously, the Department could ask law enforcement agencies to track the tickets and report the results periodically to the Department.

We continue to recommend that the Department:

- ♦ follow its established procedures for recording tickets distributed to law enforcement agencies; and
- ♦ strengthen its procedures to ensure that the Department records the tickets issued by law enforcement agencies.

The collection of unpaid fines

For several years, we have reported that the Department needs to improve its procedures for collecting court-ordered fines. In our 2002 Fall Report – Volume 2, we recommended that the Department review its procedures for collecting fines. In addition, we recommended that the Department:

- ♦ implement the recommendations of the Department's Fine Collection Review Committee;
- ♦ establish performance targets for fine collections and the performance measures needed to monitor progress in achieving the desired targets; and
- ♦ ensure that when repeat offenders appear in court, the Department informs the sentencing judge of any unpaid fines.

On February 18, 2002, PAC considered this matter and agreed with our recommendations.

We are pleased to report that the Department has made progress in implementing our recommendations.

The Department has completed a review of its fine collection procedures including a cost/benefit analysis. The Department has recommended new collection policies and procedures to Treasury Board and has requested additional resources. The cost-benefit analysis shows that the additional cost of the proposed collection procedures would be less than the increased fines collections. At the date of this report, Treasury Board has not accepted the Department's request.

The Department has implemented all but one of the recommendations of its Fine Collection Review Committee. The Department has determined that a few of the Committee's recommendations are not practical. We agree with the Department's assessment. The Department has not implemented the Committee's recommendation to develop comprehensive, accurate financial reports so that management can compare actual collections with expected collections.

The Department has set out a performance measure for fine collections in its annual report for the year ended March 31, 2003. It plans to set a performance target for fine collections and to report its progress in achieving this target in future annual reports.

We continue to recommend that the Department:

- ◆ implement the recommendation of the Fine Collection Review Committee to develop comprehensive, accurate financial reports so that management can compare actual collections with expected collections; and
- ◆ ensure that when repeat offenders appear in court, the Department informs the sentencing judge of any unpaid fines.

The Department also told us that it has implemented a pilot project at one court location to ensure that when repeat offenders appear in court, the Department informs the sentencing judge of any unpaid fines.

Contingency plans required

The Department needs a written, tested, and approved contingency plan for its information technology (IT) systems.

The Department depends on its IT systems to carry out its programs and services. To provide continuous service, the Department must ensure that its IT systems and data are available when needed.

The Department stores copies of its IT systems' data, (i.e., it makes regular copies of essential information and stores the information in a safe location). However, it does not have a contingency plan for the equipment and facility needs of the Department that support its IT systems. Having backup copies of data is of no use if the computer equipment and facilities needed to use the data are not available.

The Department has identified its key IT systems and the length of time it could continue to operate without these systems. The Department has also taken steps for some of its key systems to ensure that appropriate computer equipment and facilities would be available if needed. The Department needs to continue with this process to ensure that it has adequate plans to ensure the availability of all key systems.

Until the Department has an adequate contingency plan, it faces increased risk that:

- ◆ it may miss commitments, delay decisions, and lose essential data; and
- ◆ it may face increased program and service costs and declining public confidence in the Department.

We have reported this matter since 1997. On October 8, 1998, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Department prepare a written, tested, and approved contingency plan for its systems.

Internal audit needs strengthening

The Department needs to ensure that the internal auditor can provide it with information on the effectiveness of the Department's controls to safeguard public resources and to ensure that its revenues and expenses comply with the law.

The Department's objectives for the internal auditor include providing senior management with information on the effectiveness of the Department's processes to safeguard public resources and to ensure that its revenues and expenses comply with the law.

The Department has not directed its internal auditor to meet the Department's expectations. The internal auditor's work focuses on the Department's revenue systems such as court offices and local registrars. The Department should ensure that the internal auditor audits those processes and expenditures where the Department is at greatest risk of loss of public money or spending money for unintended purposes.

1. **We recommend that the Department of Justice focus the work of its internal auditor on the processes and transactions where the Department is at greatest risk of loss of public money or spending money for unintended purposes.**

We are encouraged by the Department's recent actions on this issue. The Department has approved the development of a risk assessment process for the Department. Once implemented, this process should provide better direction for the internal auditor.

Capital assets planning—a follow-up

To carry out its role, the Department must ensure that it has the capital assets necessary to meet the needs of the justice system. Capital assets enable the Department to deliver programs and services to pursue its mission of promoting safe communities, social and economic order, and just relations.

The Department's main capital assets include facilities and information technology systems. The Department rents facilities from Saskatchewan Property Management Corporation (SPMC). These include courthouses and office space (and, until the reorganization, correctional facilities). The Department spends approximately \$12.5 million annually on rent. The Department also has significant information technology capital assets.

In 2002, we audited the Department's capital assets plan. We assessed whether the capital assets plan of the Department of Justice included an

adequate discussion of the key elements of capital assets plans in the public sector.

We found that the Department's capital assets plan included adequate information on the key elements for capital assets plans, except for the following matters. The Department did not adequately summarize the capital assets it would require for future program delivery. In addition, the Department did not adequately set out the criteria it used to select its capital assets strategies.

In our 2002 Fall Report – Volume 2, we recommended that the Department:

1. Include in its capital assets plan a summary of all of the key capital assets it will require to deliver programs and services; and
2. Include in its capital assets plan the criteria it uses to select capital assets strategies.

In 2003, we evaluated the Department's response to our recommendations. We found that the Department now has adequately implemented our recommendations for a capital assets plan.

Summary of capital assets

The Department's capital plan summarizes the key facilities that the Department will use to carry out its mandate. The plan includes a study that identifies the facilities that meet the Department's needs, need modification, and which areas require new facilities.

The Department's plan prioritizes its needs for capital facilities. Many of the needs are immediate. The plan also describes longer-term needs.

The Department's plan demonstrates progress in summarizing the key capital assets it will require to deliver its programs and services.

Strategies to manage capital assets

The Department's capital plan outlines criteria that guide the Department's decisions regarding facilities. The Department sets out criteria including:

- ◆ protection of individuals involved in the justice system;
- ◆ the ability of the Department to deliver programs and services;
- ◆ meeting Human Rights conventions and federal and provincial building codes and standards.

The Department's plan shows progress. It describes the criteria the Department uses to select capital assets strategies. By setting these criteria, the Department guides its future decisions about capital assets.

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Main points

This is the first year of operation for the Department as Government Relations and Aboriginal Affairs. Effective April 1, 2002, its responsibilities were expanded to assume the programs of the former Department of Intergovernmental and Aboriginal Affairs and the municipal programs of the former Department of Municipal Affairs and Housing. The Department is now responsible for overseeing two funds and three agencies.

In general, the Department has good practices to manage most of its activities with two exceptions. These exceptions are the adequacy of its oversight of the First Nations Fund and Northern Revenue Sharing Trust Account and monitoring of money provided to community development corporations.

We continue to report that the Department does not have adequate processes to know if the \$20.2 million it provided to the First Nations Fund was used as required by law. In addition, the Trustees of the First Nations Fund have denied us access to the Fund's records. As a result, we cannot audit the Fund for the year ending March 31, 2003. Also, we cannot report if the Trustees have fixed the significant problems we found in 2001 with their spending practices.

On August 1, 2003, the Legislative Assembly changed the law governing the Fund. The changes allow the Minister of Aboriginal Affairs to pay public money to a different entity called the First Nations Trust. This entity is not a Crown agency. As such, it is not accountable to the Legislative Assembly or subject to audit by our Office.

Introduction

In this chapter, we set out:

- ♦ a brief overview of the Department's mandate and spending; and
- ♦ the results of our 2003 audits of the Department, its special purpose funds, and its agencies.

Understanding the Department

The Department manages the Province's relations with other governments, in Canada and abroad, and works with Aboriginal peoples and their organizations to advance common interests. It works with communities to support local governance, provides them with financial and technical support, and develops laws and other policies to meet the changing needs of municipal governments. In addition, the Department coordinates and manages matters related to Government House, French-language services, official protocol, and provincial honours, and provides administrative services to the Office of the Lieutenant Governor.

The Department's web site contains its annual reports, other key publications, and agreements and further information about its programs. It is located at <http://www.graa.gov.sk.ca/>.

Related special purpose funds and agencies

The Department is responsible for the following special purpose funds and agencies:

	<u>Year-end</u>
First Nations Fund	March 31
Government House Foundation (Foundation)	March 31
Métis Development Fund	December 31
Municipal Potash Tax Sharing Administration Board (Board)	December 31
Northern Revenue Sharing Trust Account (NRSTA)	December 31

Each year, each special purpose fund and agency gives the Legislative Assembly (Assembly) its annual audited financial statements and/or its annual reports.

Overview of Department spending

For the year ended March 31, 2003, the Department spent \$176.0 million. It had revenues of \$13.4 million. These were primarily from the federal government for cost-sharing arrangements.

The following is a list of major programs and spending reported in the Department's 2002-2003 annual report:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Saskatchewan Municipal Board	\$ 1.0	\$ 0.9
Provincial Secretary	1.3	1.8
Administration	2.8	2.9
Accommodation and Central Services	2.8	2.4
Intergovernmental Relations	3.3	3.2
Municipal and Community Relations	4.1	4.4
Aboriginal Affairs	50.4	53.3
Municipal Financial Assistance	107.9	107.1
	<u>\$ 173.6</u>	<u>\$ 176.0</u>

Spending on Aboriginal Affairs includes \$19.6 million for payments under the Treaty Land Entitlement agreements, \$28.5 million for payments under the First Nations Gaming agreements, and \$2 million to the Métis Development Fund.

The *Public Accounts 2002-2003: Volume 2: Details of Revenue and Expenditure* reports information about the Department's revenue and expenditures (to view a copy of this report, see <http://www.gov.sk.ca/finance/paccts>).

Audit conclusions and findings

In our opinion for the fiscal years ending on or before March 31, 2003:

- ♦ the Department, Foundation, Métis Development Fund, Board, and NRSTA had adequate rules and procedures to safeguard public resources except for the matters reported in this chapter; and

- ♦ the Department, Foundation, Métis Development Fund, Board, and NRSTA complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters reported in this chapter.
- ♦ the Foundation, Métis Development Fund, Board, and NRSTA had reliable financial statements.

For the First Nations Fund, the Trustees of the Fund have denied us access to the Fund. As a result, we are unable to provide our conclusions and findings on the Fund.

We worked with Deloitte Touche LLP, appointed auditor for the Métis Development Fund, to form the above opinions related to the Fund. To do our work, we used the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our web site at <http://www.auditor.sk.ca/rrd.html>).

Audit findings—Department

Better monitoring needed for community development corporations

The Department needs to improve its processes to ensure that community development corporations (CDCs) spend public money as required by law.

Cabinet, through Orders in Council, authorizes the Department to provide the CDCs with money for social and economic development programs for First Nations people. In addition, Cabinet, through Orders in Council, approved agreements with the Federation of Saskatchewan Indian Nations (FSIN) and placed restrictions on the CDCs' spending of money received from the Department¹.

¹ Cabinet imposed conditions on spending of the Community Development Corporations through Order in Council 197/2000 dated March 20, 2000 through its approval of amendments to the 1994 Gaming Framework Agreement and subsequently amended through Order in Council 255/2001 dated March 27, 2001. Through Order in Council 399/2002 dated June 11, 2002, Cabinet imposed new conditions through approval of the 2002 Framework Agreement.

In 2002-03, the Department provided four CDCs' with a total of \$6.7 million.

In 2002-03, the Department designed a reasonable process that sets out the information that it requires from CDCs. See Exhibit 1 for the nature and type of required information. In addition, the Department obtained approval to hire additional staff in 2003-04 to administer this process.

Exhibit 1—Reporting expected from community development corporations

The Department plans to work closely with the Government appointed *ex officio* member of the Board of each community development corporation (CDC) to identify any concerns with the operations of the CDCs. In addition, the Department requires each CDC to provide it with the following each year:

- the name of the auditor it has selected;
- an audit opinion on whether the money received by the CDC has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the receipt and allocation of the money received by the CDC;
- an audit opinion on whether the money the CDC expended was for the purposes outlined in the 2002 Gaming Framework Agreement;
- audited financial statements;
- an annual report; and
- a copy of the management letter issued by the CDC's auditor for each audit and the CDC's response to the management letter.

The Department plans to use the requested information to determine whether the CDCs spend public money only as permitted and take corrective action, as necessary. The Department has shared its information expectations with each CDC.

The Department had not yet fully implemented the process at March 31, 2003. During 2003, the Department received some, but not all, of the requested information from each of the CDCs. Without all of the requested information, the Department was not able to determine if the CDCs spent public money as intended. As a result, we cannot determine if the Department spent public money for the purpose required by the law.

We also reported this matter in our 2002 Fall Report – Volume 2.

1. **We recommend the Department ensure that it receives sufficient and timely information from each community development corporation to determine if each corporation properly managed public money and spent it only as permitted by law.**

Better monitoring of First Nations Fund needed

The Department does not have adequate processes to know if the public money it provides to the First Nations Fund is used as required by law.

The Saskatchewan Gaming Corporation Act (Act), in effect during the audit period, established the Fund. The Act made the Trustees of the Fund accountable to the Minister of Aboriginal Affairs. The Act restricted the purposes for which the Trustees of the Fund can spend money.

Under the Act, the Department provided the First Nations Fund with money and the Trustees must use this money for social and economic development programs for First Nations people.

Since our 2001 Spring Report, our Office has reported each year that the Department needs to improve its processes to ensure the Trustees of the Fund spend money with due care and in accordance with the Act. In each year, we reported that the Trustees did not have adequate processes to know if the money was spent for approved purposes. In our 2002 Fall Report – Volume 2, we noted the Trustees did not make the necessary improvements. We also cited specific examples of their spending that did not meet the requirements of the Act.

The Department is aware that the Trustees did not have adequate processes to administer the Fund and that they were spending money without authority. In 2002-03, the Department did not take steps to ensure the Trustees made the necessary corrections. Nevertheless, the Department provided the First Nations Fund with \$20.2 million in 2002-03 (2002 - \$15.1 million, 2001 - \$11.2 million). As a result, we cannot determine if the Department spent public money for the purpose required by the Act.

On November 5, 2002, the Standing Committee on Public Accounts (PAC) concurred with our recommendation that the Department supervise the Trustees of the First Nations Fund to ensure that the Trustees spend public money with due care and in accordance with the Act. We continue to make this recommendation.

Access denied to First Nations Fund and key change to accountability relationships

The Trustees of the Fund have denied our Office access to information necessary for us to fulfil our duties to the Assembly. In late September 2003, the Department wrote the Trustees encouraging them to give us access. At October 2003, the Trustees have not given us access. As a result, we cannot complete the audit of the Fund and report to the Assembly.

Since 2001, we have reported significant problems with spending practices of the Trustees of the Fund. We recommended key changes (see Exhibit 2 for details). Because we cannot do our work, we do not know if the Trustees have made any changes to their practices since our last audit (i.e., March 31, 2002).

2. **We recommend the Department provide our Office with the necessary access to the accounts of the First Nations Fund.**

Exhibit 2—Outstanding recommendations on First Nations Fund

On November 5, 2002, PAC considered and concurred with our recommendations initially made in the 2001 Spring Report (Chapter 3) and repeated in the 2001 Fall Report – Volume 2 (Chapter 8A) and the 2002 Fall Report – Volume 2 (Chapter 8).

At October 2003, we do not know the status of these recommendations.

We recommended:

1. The Trustees should establish rules and procedures to ensure that the First Nations use the money received from the Trustees only for the purposes described in *The Saskatchewan Gaming Corporation Act*.
2. The Trustees should establish rules and procedures to ensure that recipient organizations (e.g., First Nations Addiction Rehabilitation Foundation) use the money received from the Trustees only for the purposes described in *The Saskatchewan Gaming Corporation Act* and the Framework Agreement.

3. The Trustees should ensure that all payments comply with the law; and
4. The Trustees should prepare an annual report that includes:
 - ♦ the Fund's audited financial statements;
 - ♦ the Fund's goals and objectives;
 - ♦ the Fund's planned and actual performance;
 - ♦ the Fund's risks and how the Trustees are managing those risks; and
 - ♦ a list of persons and organizations that have received money from the Fund and the amount each person or organization received.

On August 1, 2003, *The Saskatchewan Gaming Corporation Act* was changed. The new Act provides the Minister with the authority to wind-up the Fund once he receives certain information from the Trustees of the Fund. This information includes audited financial statements for the Fund's year ended March 31, 2003 and for the period from April 1, 2003 to the date of the Fund's wind-up.

In addition, the new Act allows the Minister to pay public money to the First Nations Trust instead of the Fund once the Trust is set up. The Act expected the Federation of Saskatchewan Indian Nations (FSIN) to set up the Trust to receive and distribute gaming funds in accordance with the 25-year Gaming Framework Agreement (2002 Framework Agreement). The Government made the 2002 Framework Agreement with the FSIN in June 2002. The 2002 Framework Agreement places spending restrictions on the Trust.

After March 31, 2003, the FSIN set up the First Nations Trust. In July 2003, the Department started to make payments to the Trust. The Department expects to use a process similar to its new process for CDCs to monitor the Trustees' operations.

The Trust is not a Crown agency, that is, it is not part of the provincial government. As such, it is not accountable to the Assembly and the Assembly will not receive information directly from the Trust as it did for the Fund. In addition, the Trust is not subject to audit by our Office.

Audit findings—Northern Revenue Sharing Trust Account

Background

The Northern Municipalities Act (Act) establishes The Northern Revenue Sharing Trust Account (NRSTA) and the Management Board (Board). The Department administers NRSTA. Cabinet appoints the Board. The Board advises the Minister on allocations of northern revenue sharing grants, northern capital grants, and any changes to the law concerning NRSTA.

NRSTA includes all revenues of the Northern Saskatchewan Administration District (a designated area in the northern part of the Province) and money appropriated by the Assembly for the purposes of northern revenue sharing and grant programs.

In 2002, NRSTA had revenues of \$14.9 million, expenditures of \$16.5 million, and held assets of \$25.6 million as at December 31, 2002.

Operations need monitoring

The Department needs to set up processes to oversee NRSTA's operations.

Staff prepare monthly financial reports. They provide these reports to program management. However, the reports are not adequate because they do not explain differences between planned and actual results. Also, the reports do not project the financial results for the remainder of the year. Because senior management does not regularly receive and review NRSTA's reports, errors and mistakes may occur without timely detection.

Also, the Department needs to define the operational and compliance reports it needs from the staff to monitor the operations of NRSTA. Operational reports would show the effectiveness of programs (i.e., what NRSTA is required to achieve and its progress towards achieving those requirements). Compliance reports would describe NRSTA's compliance with legislative and related authorities (e.g., the law and policies).

The Department has not set out the reports that staff must give to senior management regularly. Nor has the Department set up a process to review those reports and give directions to staff who manage NRSTA.

3. We recommend that the Department:

- ♦ set out the reports it needs to monitor Northern Revenue Sharing Trust Account's operations; and
- ♦ set up a process to oversee Northern Revenue Sharing Trust Account's operations.

Management told us that the Department is currently reviewing what reports it needs to monitor NRSTA's operations. Management also told us that the Department has allocated additional resources and has started to develop processes to oversee NRSTA's operations.

Complete policies and procedures needed

The Department does not have adequate accounting policies and procedures to prepare accurate financial statements for NRSTA.

Agencies need accounting policies and procedures to provide staff with guidance in completing their tasks. When accounting policies and procedures are not clear and complete, there is a greater risk that staff may make errors without timely detection.

The Department has documented some procedures to record transactions in NRSTA's accounting records. However, the Department has not documented procedures to ensure that the financial records are accurate and complete. As a result, the financial statements presented for audit had significant errors. The Department corrected the financial statements when it became aware of these errors.

The Department needs to document its processes to:

- ♦ determine community lands that NRSTA expects to develop;
- ♦ recover NRSTA spending on land development for communities;

- ♦ accurately record accounts payable and accounts receivable; and
- ♦ accurately record the revenues relating to cost-sharing projects, conditional grants, and unconditional grants.

Documented accounting policies and procedures help ensure that NRSTA's financial records are complete and accurate to prepare its financial statements.

4. **We recommend that the Department set up processes to prepare accurate financial statements for the Northern Revenue Sharing Trust Account.**

Management told us the Department has allocated additional resources and has started to develop accounting processes to prepare accurate financial statements.

Board pay needs approval

The Department needs to obtain approval for Board members' pay.

Section 287.3 of the Act requires Cabinet to approve the Board members' pay. While the Department obtained Cabinet's approval for the appointment of Board members, it did not obtain Cabinet's approval for the amounts it pays to the Board members.

5. **We recommend that the Department obtain approval for the pay of Board members of the Northern Revenue Sharing Trust Account Management Board.**

Management told us the Department plans to obtain approval for board members' pay.

Annual report needed

The Department needs an adequate annual report describing NRSTA's operations.

Currently, the Department provides the Assembly with audited financial statements and some additional information about its administration of NRSTA and its programs.

To be a good accountability document, an annual report should describe the purpose of NRSTA, how it manages its key risks, what it has done, where it is now, and what it plans to do. The annual report should include key performance targets for all of NRSTA's objectives and information on how NRSTA is progressing towards achieving those targets. Discussion and analysis about NRSTA's performance targets and its progress towards those targets would help readers assess the NRSTA's performance.

The report on NRSTA to the Assembly does not include this information. The Department could prepare an annual report for NRSTA that includes this information. Alternatively, the Department could provide this information about NRSTA in its annual report.

6. **We recommend that the Department improve the information it provides to the Legislative Assembly on the operations of Northern Revenue Sharing Trust Account.**

Payee list required

The Department did not provide the Assembly with a list of persons who received money from NRSTA.

In March 1993, PAC recommended: "All government departments, agencies, and Crown corporations reporting to Treasury Board should provide a list of persons who have received money." PAC set the following general standard of public disclosure of who received money from government agencies:

- ♦ persons who received salaries, wages, honorariums, and compensation for personal services of \$2,500 or more during the year;
- ♦ suppliers of goods and services who received more than \$20,000 per year; and

- ♦ persons who received transfer payments of more than \$5,000 per year.

The Department did not provide this information on NRSTA for the years ended December 31, 2001 and December 31, 2002. The Department did provide this information on NRSTA for the year ended December 31, 2000.

7. **We recommend that the Department provide the Legislative Assembly with a list of persons who received money from Northern Revenue Sharing Trust Account in accordance with the standards established by The Standing Committee on Public Accounts.**

Management told us the Department plans to provide a list of persons who received money from NRSTA and the amounts each person received for the year ending December 31, 2003.

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Main points

As with many other departments, 2002-03 was a year of change for the Department of Labour. It worked to implement the Government's accountability framework. In addition, its new management team made a number of key changes to its processes.

We report that the Department had adequate processes to safeguard public resources and comply with the law. Also, we report on our examination of a key aspect of the Department's operations—how it assists injured workers with their claims for compensation from the Workers' Compensation Board.

During 2003, the Department began to reduce the significant length of time workers must wait for assistance. In addition, it made other significant changes in its processes to assist injured workers.

The Department needs to set clear performance expectations and improve its processes to monitor performance. It should align resources to meet the performance expectations it establishes.

We look forward to reviewing future progress in this key area.

Introduction

The Department of Labour (Department) works with employees and employers to promote health and safety, co-operation, fairness, and equity in Saskatchewan workplaces. In co-operation with working people, unions and employers, and other organizations, the Department is responsible for:

- ♦ developing, promoting, and enforcing the legislative framework for labour relations, labour standards, and occupational health and safety;
- ♦ providing prevention, education, and training services for Saskatchewan workplaces;
- ♦ assisting in preventing and resolving workplace disputes; and
- ♦ developing policies and programs that lead to safe, fair, and productive workplaces.

The following is a list of major programs and spending reported in the *Public Accounts 2002-03: Volume 2: Details of Revenue and Expenditure* (to view a copy of this report, see <http://www.gov.sk.ca/finance/paccts>).

	<u>Original Estimates</u>		<u>Actual</u>	
	(in millions of dollars)			
Occupational Health and Safety	\$	5.0	\$	4.8
Labour Support Services		2.5		2.5
Administration		1.4		1.6
Labour Standards		1.6		1.6
Accommodation and Central Services		1.4		1.4
Other		1.9		1.9
	\$	<u>13.8</u>	\$	<u>13.8</u>

Our audit conclusions and findings

In our opinion, for the year ended March 31, 2003:

- ♦ the Department had adequate rules and procedures to safeguard public resources; and
- ♦ the Department complied with authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

The remainder of this chapter describes the results of our audit of the Department's processes to assist injured workers with their claims for compensation from the Workers' Compensation Board.

Worker's Advocate—Assisting injured workers

The Department of Labour has a mandate to assist injured workers who seek help with their claims for compensation from the Workers' Compensation Board (WCB). The Department appoints worker's advocates under *The Workers Compensation Act, 1979*. The worker's advocates, as employees of the Department, are to provide independent assistance to workers.

The worker's advocates assist injured workers or their dependents (workers) to appeal WCB decisions on their claims for compensation. For the year ended March 31, 2003, the Department spent \$553,000 (\$487,000 in 2002) to provide worker's advocate services excluding accommodation, employee benefits, and other administrative costs.

Service delays improving

Injured workers face lengthy waits for help from worker's advocates. This is a long-standing problem.¹ The Department needs to effectively manage the assistance it provides workers to help ensure that workers receive timely assistance and appropriate benefits. By effectively managing its

¹ Page 69, *Report of the Workers' Compensation Committee of Review 1986*, cited in *Dorsey 2000*, p.47.

assistance, the Department will help maintain public confidence in the worker's advocate program.

The Department has made some progress in reducing service delays. During April 2003, the Department assisted workers who had waited 25 months for service. During September 2003, the Department assisted workers who had waited 19 months for service. It plans further changes to its processes to achieve further service improvements. We agree that improving the timeliness of service to injured workers is essential.

Audit objective and criteria

The objective of our audit was to assess whether the Department of Labour has adequate processes to assist workers (or their dependants) who seek help with their claims for compensation from the Workers' Compensation Board. We focused on the Department's processes at August 31, 2003.

To assess the adequacy of the Department's processes to assist workers, we used the criteria listed in the Exhibit. We reported these criteria in Chapter 7 of our 2003 Report – Volume 1. The Department agreed with the criteria.

Exhibit – Audit criteria

To assist workers with their claims for compensation from the Workers' Compensation Board, the Department should:

1. Develop capacity to assist
 - ◆ ensure staff have appropriate knowledge and skills
 - ◆ establish timely access to key information
 - ◆ seek necessary financial resources
 - ◆ allocate resources to maximize capacity
2. Manage requests for assistance
 - ◆ set expectations for providing assistance
 - ◆ determine eligibility of requests for assistance
 - ◆ assign requests to expedite assistance
3. Monitor performance and adjust processes
 - ◆ analyze performance
 - ◆ modify processes to improve performance

We followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

Conclusion and recommendations

During 2002 and 2003, the Department made many significant changes in its processes to assist workers with their claims. The Department's processes continue to evolve.

We conclude that as of August 31, 2003, the Department had adequate processes to assist workers (or their dependents) who seek help with their claims for compensation from WCB, except for the matters reflected in the following recommendations.

We recommend:

1. **The Department should improve its processes to assist workers with their claims for compensation. The improvements should include:**
 - ♦ **setting clear performance expectations; and**
 - ♦ **aligning resources to meet established performance expectations.**
2. **The Department should improve its processes to monitor the achievement of its performance expectations for the worker's advocate program. The improvements should include the regular review of written analysis of performance.**

Key findings (by criteria)

In this section, we set out our expectations (in italics) for each of the criteria, together with our key findings. We describe the processes of the Department of Labour to assist workers who seek help with their claims to WCB for compensation.

Develop capacity to assist workers

To develop capacity to assist workers, we expected the following. The Department would ensure that its staff have the knowledge and skills necessary to assist workers. The Department would establish timely access to required information and would monitor access to information to address problems promptly. The Department would estimate the resources it needs to help workers with requests for assistance. The Department would identify areas where resources would make the biggest difference in helping workers and would allocate the resources accordingly.

The Department documents the competencies that advocates should have to assist workers. Documenting necessary competencies helps the Department to hire or train advocates with the appropriate knowledge and skills.

The Department expects to have learning and development plans in place for all Department staff by December 31, 2003. The Department also plans further training for worker's advocates in the future. The Department should document the resources it requires to provide training. This will help the Department ensure that worker's advocates have necessary competencies.

The Department has worked with the WCB to establish timely access to required information. The Department has a formal agreement with the WCB that provides for access—including electronic access—to WCB information. The Department and the WCB have also agreed in writing to meet monthly to discuss and remedy issues.

The Department should align its resources with its expectations for the worker's advocate program. The Department should set out its analysis of the resources it requires to meet its expectations. The analysis should document the Department's assumptions, for example, regarding the number of new requests it will receive, the number of workers from the waiting list that it will assist, and the length of time workers will wait for assistance. The analysis should consider the resources the Department requires for training. The Department should use its analysis to determine the resources it needs to provide timely assistance and to reduce the waiting list.

The Department has considered where it can best apply its existing resources. It has made changes intended to increase its capacity to assist workers. The Department's changes include assigning a more senior level manager to the worker's advocate program, focusing the Department's assistance on workers' second appeals, and assigning specific responsibilities to an intake officer and advocates to reduce the number of workers waiting for assistance.

Manage requests for assistance

To manage requests for assistance, we expected the following. The Department would set clear expectations for how it assists workers and would communicate these expectations to staff. The Department would set criteria to help it decide whether requests are eligible for assistance. The Department would sort and assign eligible requests to staff as quickly and effectively as possible.

The Department sets expectations for providing assistance. However, these expectations relate to activities (the procedures it uses to provide assistance) rather than outcomes (the performance levels it aims to achieve). The Department adequately communicates the procedures it expects of its staff.

The Department should set clear expectations for performance outcomes. These expectations should include the timeliness and quality of assistance it will offer injured workers. The expectations could specify, for example, how long workers should have to wait for assistance and the extent of assistance that workers will receive. We note that the Department plans to develop service standards by December 2003. We anticipate that these service standards will assist the Department to measure its performance.

The Department developed eligibility criteria to help it assess whether it can assist workers who ask for help with their claims for compensation from the WCB. The Department applies these criteria to determine eligibility for assistance at different times in its relationship with workers.

When workers first approach the Department for assistance, the Department assesses whether they are eligible for assistance or should be referred elsewhere. Once the Department makes the initial

determination of eligibility, it requires workers to pursue their first appeal (to the WCB Appeal Committee) themselves. The Department provides workers with printed guidance for carrying out this appeal.

After the first appeal, the Department sorts and assigns the remaining requests for assistance according to the length of time the workers have waited (those waiting the longest are assisted first). The Department also distributes difficult cases evenly among advocates.

Monitor performance and adjust processes

To monitor performance and adjust processes, we expected the following. The Department would analyze its performance by comparing its results to planned levels of service. The Department's senior management would regularly review performance reports. The Department would identify any reasons why its performance did not meet expectations. The Department would provide feedback to staff and revise its processes to improve performance.

The Department has limited processes to monitor the performance of the worker's advocate program. The Department produces monthly reports showing the number of cases opened and closed each month and the number of workers waiting for assistance from advocates. These written monthly reports do not show how long workers have waited for help from advocates. Nor do the reports show trend information. In addition, because the Department has not set expectations for its performance in assisting workers, these reports cannot compare the results achieved to planned levels of performance.

The Department provides senior management with verbal reports on performance. Verbal reports do not allow for considered analysis and make it difficult for senior management to monitor progress.

The Department should analyze its performance by comparing the results it achieves to its expectations. Regular reports should provide trend information to enable the Department to assess its progress over time. For example, the reports could indicate how long the workers had to wait for assistance. By showing trends over time, the Department could assess its progress.

The Department significantly modified its processes for assisting workers during 2002 and 2003. It plans further changes. The Department's plans identify the nature of changes required, assign responsibility for leading the change, and identify a target completion date. These planned changes should improve the Department's performance in assisting workers to pursue their claims for compensation from the WCB.

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Main points

The Department needs to improve its internal reports to monitor its activities and follow its established processes to properly protect its capital assets from loss or theft. It also needs to strengthen its internal audit function and prepare a contingency plan to recover from computer system failures or destruction. Also, the Department should prepare a report on the operations of its special purpose funds and make that report public.

The Department has made progress towards implementing our recommendations to improve its management of forest fires. However, it needs to do more work to improve its processes for preparing and reporting on its fire prevention program. It also needs to ensure it has suitable infrastructure for detection and suppression of forest fires.

Next year, we will examine the Department's processes to regulate air emissions that originate in the Province. During 2003, we completed our research and established the criteria that we will use to do this work. The Department agreed the criteria are reasonable and attainable. We will report the results of our assessment in a future report.

We continue to report that the Operator Certification Board needs better processes for recording application fees. Because the Board does not know if it recorded all the application fees received, we cannot determine whether the Board's financial statements are reliable. We also report that the Board should prepare a financial plan for its operations.

We continue to recommend that the Saskatchewan Watershed Authority set appropriate security policies and procedures for its information technology systems and data. Also, the Authority needs to improve its annual report.

Introduction

The Department of Environment (previously the Department of Environment and Resource Management) is responsible for managing, enhancing, and protecting the Province's natural and environmental resources and sustaining them for future generations. Information about the Department of Environment's (Department) mandate and its organizational structure are available at its web site (<http://www.se.gov.sk.ca/>).

For the year ended March 31, 2003, the Government's summary financial statements show environment and natural resource expenditures of \$242 million. The following table shows the expenditures of government agencies for environment and natural resources.

	(in millions of dollars)
Department of Environment	
(2002-03 Public Accounts – Volume 2)	\$ 180
Deduct expenditure shown as:	
Economic development related to forests	(10)
Community development related to urban parks	(4)
Add expenditures incurred by:	
Saskatchewan Water Corporation	24
Saskatchewan Watershed Authority	13
Forest Fire Contingency Fund	34
Centenary Capital Fund	<u>5</u>
Environment and natural resources expenditures per the Government's Summary Financial Statements	<u>\$ 242</u>

The Department received \$180 million from the General Revenue Fund for its programs. Also, the Department collected revenue of \$55 million. The Department collects revenue from licence and permit fees for fishing, gaming, and forestry. It also collects non-refundable deposits on beverage containers. In addition, the Department collects revenue and incurs expenses through its special purpose funds listed below.

The following table shows the Department's major programs and spending reported in the *Public Accounts 2002-03: Volume 2: Details of Revenue and Expenditure* (to view a copy of this report, see <http://www.gov.sk.ca/finance/paccts.>)

	<u>Original Estimates</u>	<u>Actual</u>
	(Millions of dollars)	
Forest Fire Management	\$ 37	\$ 81
Field Operations and Land Management	45	44
Forestry, Fish, and Wildlife	20	20
Environmental Protection	13	15
Administration	13	13
Water Management	---	4
Other	3	3
	<u>\$ 131</u>	<u>\$ 180</u>

The Department is responsible for managing the following special purpose funds and Crown agencies:

- ♦ Commercial Revolving Fund
- ♦ Fish and Wildlife Development Fund
- ♦ Forest Fire Contingency Fund
- ♦ Resource Protection and Development Revolving Fund
- ♦ Operator Certification Board
- ♦ Water Appeal Board
- ♦ Saskatchewan Watershed Authority

Our audit conclusions and findings

Our Office worked with Meyers Norris Penny LLP, the appointed auditor for the Saskatchewan Watershed Authority, and Mintz & Wallace, the appointed auditor of the Operator Certification Board. We used the framework recommended in the *Report of the Task Force on Roles, Responsibilities, and Duties of Auditors* (to view a copy of this report, see our web site at <http://www.auditor.sk.ca/rrd.html>). Our Office and the appointed auditors formed the following opinions.

In our opinion, for the year ended March 31, 2003:

- ♦ the Department, its special purpose funds, and Crown agencies had adequate rules and procedures to safeguard public resources except for the matters described in this chapter;

- ♦ the Department, its special purpose funds, and Crown agencies complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing; and
- ♦ the financial statements of the Department's special purpose funds and Crown agencies are reliable except for the Forest Fire Contingency Fund and the Operator Certification Board.

We also include the results of our follow-up work on our recommendations that we made in 2001 for improving the Department's processes to manage forest fires. In addition, we describe the criteria we plan to use to examine the Department's processes to regulate air emissions.

Internal reporting needs improvement

The Department needs better internal reports to monitor its activities.

In our 2002 Fall Report – Volume 2 and previous reports, we recommended the Department should:

- ♦ define and document its operational and compliance reporting needs; and
- ♦ follow its established rules and procedures for preparing its internal financial reports.

The Standing Committee on Public Accounts (PAC) considered this matter and concurred with our recommendations.

The Department's internal financial reports are now adequate. However, the Department has not yet defined its performance (operational and compliance) reporting needs.

We expected senior management would set out its internal performance reporting needs to oversee the operations of the Department. The performance reports should show the performance targets for each of its objectives and progress towards those targets. The Department could

then assess its progress and make changes where needed. The Department has begun to set out targets for some of its objectives.

Also, the performance reports should show the Department's compliance with legislative and related authorities (e.g., the laws and policy manuals.) The Department does not require compliance reports showing if the Department has complied with authorities including key agreements that it manages.

We continue to recommend the Department define and document its operational and compliance reporting needs.

Management told us that the Department has begun to prepare quarterly operational reports.

Control over capital assets needed

In our 2002 Fall Report – Volume 2, we reported that staff did not comply with the Department's rules and procedures to record and safeguard its capital assets (equipment, buildings, furniture, and fixtures).

The Department has established appropriate processes for maintaining complete records of its capital assets. They require staff to identify and record the capital assets acquired, transferred between locations, and disposed of during the year. They also require staff to reconcile regularly the capital asset records to the financial records.

Staff followed these processes for the capital assets the Department manages for its special purpose funds and Crown agencies. The Department manages capital assets with a net book value totalling \$282 million for its special purpose funds and Crown agencies.

Staff, however, did not always comply with these processes for managing the Department's capital assets. For example, staff did not record in the capital asset records the capital assets totalling \$0.5 million acquired during the year. Also, staff did not reconcile the capital asset records to the financial records. The Department's financial records show that the Department's capital assets had a net book value totalling \$13 million. Its capital asset records, however, show that the Department's capital assets had a net book value totalling \$8 million.

In addition, staff did not always obtain written authority to transfer capital assets from one location to another. As a result, the capital asset records did not properly show the assets' location.

The Department faces increased risk that its capital assets may be lost or stolen without detection because of its inadequate controls over capital assets.

In our 2002 Fall Report – Volume 2, we also reported that the Department did not report publicly on the use of its capital assets. Public information about the capital assets that a government agency uses to provide services should briefly describe the:

- ♦ capacity of each major category of capital assets;
- ♦ extent to which the use of capital assets achieved planned results, and;
- ♦ strategies used to manage major risks to the key capital assets.

The Department provides some information about its capital asset purchases in its annual report. The Department needs to provide more information about its capital assets in its annual report.

PAC considered these matters and concurred with our recommendations.

We continue to recommend that the Department:

- ♦ ensure staff follow the Department's established rules and procedures to safeguard the Department's capital assets; and
- ♦ describe the capacity of each major category of capital assets, the extent to which the use of capital assets achieved planned results, and the strategies used to manage major risks to the key capital assets in its annual report.

Management told us the Department plans on identifying and recording all the capital assets that it manages. Management also told us the Department plans to provide staff training on the importance of proper documentation and record keeping of capital assets. In addition, management told us the Department is reviewing how best to provide more information about its capital assets in its annual report.

Contingency plan needed

In our 2002 Fall Report – Volume 2, we reported that the Department did not have a complete written and tested contingency plan for its information systems.

A contingency plan is important because the Department's operations depend on the reliability of its information systems. The Department needs a complete contingency plan covering its computer systems to ensure that it can operate effectively in case its computer systems fail or are accidentally destroyed.

A contingency plan sets out the procedures needed to ensure the continuity of operations and the availability of data. These plans should cover all significant information technology (IT) operations based on the importance of each program and service. An agency's contingency plan is an important part of its business interruption plan, which sets out how the agency will recover from an unplanned business interruption.

Management should regularly review and approve the contingency plan. Management should also test the contingency plan regularly to ensure it works.

The Department has documented some contingency plan procedures for storing programs and data for all major systems. However, the Department does not have a complete written, tested, and approved contingency plan for its major IT systems.

PAC considered this matter and concurred with our recommendation.

We continue to recommend that the Department prepare a complete written information technology contingency plan and test that plan to ensure that it works.

Management told us that the Department plans to complete documenting its IT contingency plan.

Internal audit function needs strengthening

The Department needs to ensure that its internal auditor can provide it with timely information on the adequacy of the processes to safeguard public resources and to comply with the law.

Departments that carry out diverse programs and activities should receive independent assurance on their processes from their internal auditors. To be independent, the internal auditor should report directly to the Deputy Minister or the Executive Committee established by the Deputy Minister.

The Deputy Minister formed an Executive Committee comprised of senior management of the Department. The Executive Committee is required to approve the internal auditor's annual audit plan. This approval helps ensure the internal auditor co-ordinates its work with other branches for monitoring the Department's processes.

The Executive Committee approved the annual audit plan for its internal auditor. However, the audit plan approved was not adequate. The internal auditor's audit plan did not include a risk assessment of all the Department's programs and activities. A complete risk assessment would ensure the audit plan covers the key operational areas of the Department.

Under the approved audit plan, the Committee expected that the internal auditor would provide reports semi-annually. The Committee received only one report from the internal auditor. The Committee has not yet reviewed and discussed the report with the internal auditor.

To be effective, the Committee should ensure that the internal auditor completes its approved audit plan. Also, the Committee should discuss the audit findings and reports with the auditor promptly. The Committee can then make recommendations to the Deputy Minister to help improve the management of public money.

- 1. We recommend that the internal auditor prepare its audit plan based on a complete risk assessment of the Department's programs and activities.**

2. **We recommend that management receive the internal auditor's reports as planned and discuss those reports with the internal auditor promptly.**

Management told us that it plans to receive and review the internal auditor's findings and reports on a timely basis.

Annual report needs improvement

The Department does not have an adequate annual report on the operations of its special purpose funds.

The Department's annual report includes some information about its special purpose funds and unaudited financial statements. However, the Department needs to include in its annual report the funds' audited financial statements and discussion of the funds' goals, key performance targets, and progress towards achieving these targets.

We reported this matter in our 2002 Fall Report – Volume 2 and previous reports. PAC considered this matter and concurred with our recommendation.

We continue to recommend that the Department prepare a report on the operations of its special purpose funds and make that report public.

Management told us the Department plans to include in its annual report audited financial statements for its special purpose funds. Also, management told us the Department plans to include financial statement discussion and analysis for the funds in its annual report.

Department's progress toward improving its management of forest fires

In 2000-01, we audited the Department's systems and practices for managing forest fires. In our 2001 Fall Report – Volume 2, we reported the Department had adequate processes to manage forest fires. However, we made four recommendations to help the Department improve its practices. On February 19, 2002, PAC considered these matters and concurred with our recommendations.

During 2002-03, we reviewed what the Department has done to address our recommendations. We describe below our recommendations and the Department's progress.

Adequate fire prevention program needs improvement

Recommendation 1 – The Department should improve its rules and procedures for preparing and reporting on its prevention program.

The Department continues to work on setting measurable targets for its fire prevention program. Once it has set those targets, it needs to set a process to assess how well it is achieving those targets. Establishing measurable targets and monitoring them would help the Department assess the effectiveness of its fire prevention activities.

The Department has not yet documented its forest fire prevention program. However, the Department prepared an internal report on the education and prevention activities for the 2002 fire season.

Also, the Department has not yet documented its policies to determine when and where to use fuel treatment activities (reducing underbrush, thinning the tree stands, and replanting trees that are more fire resistant). Documenting its policies would help the Department ensure that areas with high values and high risk continue to be the priority for its fuel treatment activities.

In 2002, the Department set up educational signs along highways where a fire had occurred. The signs described how fire is a natural part of the ecosystem, how much forested area was lost, the cause of the fire, and how much the fire cost the Department. This type of information helps the public to understand the need to prevent fires. The Department should also publish its policy on prosecuting those responsible for starting fires and the results of its prosecutions.

We continue to recommend the Department improve its rules and procedures for preparing and reporting on its prevention program.

Values at risk still being updated

Recommendation 2 – The Department should prepare a complete record of the values at risk in the forest and update that record regularly.

The Department is in the process of identifying, recording, and ranking all values at risk (e.g., public and private properties, forests, natural habitat) in the province in a geographical information system (GIS). When completed, the information will help the Department to determine what preventative and suppression action it should take in any specific area. The Department has begun documenting all known forest values at risk and a map of the most likely areas of the forest to burn. This documentation will help the Department to link fire suppression priorities to the most important values at risk.

The Department has updated its guidelines concerning fire management priorities. The guidelines identify directives and principles to set priorities, the level of suppression, and the appropriate suppression response for values at risk.

We continue to recommend the Department prepare a complete record of the values at risk in the forest and update that record regularly.

Management told us that the initial recording of all values at risk will take time and will need regular updating.

Determine the resources required for forest fire suppression based on the values identified

Recommendation 3 – The Department should ensure it has suitable infrastructure for detection and suppression of forest fires.

The Department continues to regularly determine its detection and suppression capacity following a fire preparedness approach. This approach allocates a pre-determined level of resources to forest areas with high values and high risk of fire. The Department also continues to evaluate the available computer systems to help make resource positioning decisions.

In 2001, the Department identified that its capacity to detect and suppress fires was at risk because of unsafe fire towers and ageing aircraft. Because all 51 fire towers had been deemed unsafe in 2001, the Department built six new towers for the 2002 fire season and used aerial detection as a short-term solution for detection purposes. The Department built the new towers in areas with a high risk of forest fires. Also, the Department contracted four additional fixed wing aircraft for the 2003 fire season to enhance detection capability.

The Department needs to do more to ensure it has suitable infrastructure for detection and suppression of forest fires. We continue to recommend the Department ensure it has suitable infrastructure for detection and suppression of forest fires.

Management told us that the Department is currently reviewing its long-term fire detection needs. As a part of this review, management told us the Department is evaluating the available computer systems to help make resource positioning decisions. Also, management told us that the Department is considering alternatives for upgrading its aircraft capacity for fire suppression.

Timely and effective investigation of each major fire

Recommendation 4 – The Department should establish written guidelines for referring forest fires to investigators, for investigators to follow in their investigation, and when and how much of the cost to fight fire staff should recover.

The Department has revised its guidelines for referring forest fires to investigators. The Department now has adequate guidelines for fire staff to report suspected human-caused fires to conservation officers. The Department implemented these guidelines for the 2002 fire season.

Fire staff received extensive training on how to use these guidelines and how to protect the origin of fire to help the fire investigators. Conservation officers also received training on how to investigate fires. The Department now has detailed procedures for conservation officers to investigate fires. In addition, the Department has established processes to assist staff to determine when and how they should recover costs of fighting forest fires.

Regulating air emissions

The Department is responsible to protect Saskatchewan's air quality by regulating air emissions that originate in the Province. An emission is the release of an air contaminant into the atmosphere that contributes to air pollution.

Background

As stated earlier, the Department is responsible for managing, enhancing and protecting the Province's natural and environmental resources. The Department protects those resources for conservation, social, economic, and recreation purposes and to ensure they are sustained for future generations. To fulfil its mandate the Department needs to protect primary resources including air by using regulatory and non-regulatory controls.

Under *The Clean Air Act* and *The Mineral Industry Environment Protection Regulations, 1996*, the Department is responsible to protect Saskatchewan's air quality by regulating air emissions that originate in the Province. The Department regulates emissions by issuing permits to certain industrial or mines operators who may release potentially significant sources of air contaminants (e.g., carbon dioxide, methane, benzene.) Other sources of air contaminants such as stubble burning and crude oil production are monitored by the Department of Agriculture, Food and Rural Revitalization and the Department of Industry and Resources, respectively.

The Department issues permits under *The Clean Air Act* to operators of certain industries. It also issues permits for exploration and mining of mineral resources operations under *The Mineral Industry Environment Protection Regulations, 1996*.

Permits specify air contaminants limits or requirements specific for each operator. The Department then monitor compliance (e.g., independent air contaminant testing, review of operator emission reports.)

The Department must have effective processes to identify operators that need permits, develop the terms and conditions of the permits, monitor the operators to ensure they comply with the permits, and take appropriate action when operators do not comply with the permits.

If the Department does not effectively regulate air emissions, it can lead to poor air quality. Poor air quality could result in harm to environment and human health. For example, contaminants in the air make breathing difficult, form urban smog, impair visibility, and attack ecosystems.

Recently, the Government of Canada has agreed to reduce greenhouse gas emission (e.g., carbon dioxide, methane, nitrous oxide) levels between 2008 and 2012 by 6% from the 1990 levels. To achieve these reductions, Saskatchewan is expected to do its part in reducing emissions of greenhouse gases.

Our audit objective and criteria

The objective of the audit is to assess whether the Department has adequate processes to regulate air emissions in accordance with *The Clean Air Act* and *The Mineral Industry Environment Protection Regulations, 1996*.

We will focus on processes the Department used during the period from April 2002 to October 2003.

Auditors use criteria to evaluate matters they examine. Criteria are reasonable and attainable standards of performance and control against which auditors can assess the adequacy of processes. We develop criteria based upon our review of relevant literature and best practices. We discussed and agreed the criteria with officials of the Department.

To regulate air emissions, the Department needs processes to:

1. Issue relevant permits for sources of significant air contaminants
 - ◆ Identify operators that require a permit
 - ◆ Set criteria for permits
 - ◆ Issue approved permits promptly
2. Regularly monitor compliance with permits
 - ◆ Regularly assess compliance with permit terms and conditions

- ◆ Maintain records of compliance, complaints, and investigations
- ◆ Enforce compliance with permits
- 3. Maintain capacity to regulate air emissions
 - ◆ Maintain and use a human resource plan
 - ◆ Use adequate equipment to monitor emissions
 - ◆ Evaluate capacity against needs and take appropriate action
- 4. Regular reporting on air emissions for permit holders
 - ◆ Collect data
 - ◆ Regular operational reports for senior management
 - ◆ Regular reports to the industry and the public

We plan to complete our work over the next few months and report our findings in a future report.

Forest Fire Contingency Fund

Section 8.1 of *The Prairie and Forest Fires Act, 1982* established the Forest Fire Contingency Fund (Fund) effective April 1, 2001. The Fund was established to record the costs related to fighting wildfires in excess of 100 hectares (escaped fires.) The Department administers the Fund. The Department records in the Fund the costs of fighting escaped fires including the costs that were incurred before the fire escaped.

For the year ended March 31, 2003, the Fund's financial statements report no revenues, expenses of \$34 million and no net assets. For the reasons described below, those financial statements are incorrect.

Reliability of the financial statements

The Fund's financial statements understate the Fund's revenue and overstate the annual deficiency for 2003 by \$34 million. This gives readers of the financial statements the wrong message. The message given is that expenses exceed revenues by \$34 million.

The errors in the financial statements result from the Department incorrectly recording money received from the General Revenue Fund. It

recorded this money as revenue immediately regardless of when the Department incurs the escaped fire costs. Generally accepted accounting principles require the Department to record money received for restricted purposes (escaped fires) as an amount owing to the General Revenue Fund until the money is used for the specific purpose or returned. *The Prairie and Forest Fires Act, 1982* only allows the Department to receive money for the Fund to pay for the costs of escaped fires.

In 2002, the Forest Fire Contingency Fund recorded a transfer of \$40 million from the General Revenue Fund to pay for certain escaped fire fighting expenses and recorded this transfer as revenue in 2002. However, these transfers should be recorded as revenue when the related eligible expenses are incurred. Any transfers received in advance should be recorded as deferred revenue. Had the Fund properly recorded the transfer, the revenue from the General Revenue Fund for 2003 would have been increased by \$34 million (2002 – decreased by \$34 million) and the excess of expenses over revenues for 2003 would have been decreased by \$34 million (2002 – excess of revenues over expenses decreased by \$34 million). Also, deferred revenue at the year-end would have been nil (2002 – increased by \$34 million) and the net financial assets at the year-end would have been nil (2002 – decreased by \$34 million).

In June 2001, The Canadian Institute of Chartered Accountants (CICA) announced it would begin a project to address the differences that have arisen in the interpretation and application of accounting standards concerning government transfer payments. The CICA continues to work on this project. Clarification of these standards will help to address the matters we raise concerning the reliability of the financial statements of the Fund.

We reported this matter in our 2002 Fall Report – Volume 2. PAC considered this matter and deferred its decision on our recommendation pending the results of the CICA project that is examining accounting standards for government transfer payments.

Operator Certification Board

The Operator Certification Board (Board) is continued under *The Water Regulations, 2002* to certify operators of water and sewage works.

For the year ended March 31, 2003, the Board's financial statements report revenues of \$34,000, expenses of \$36,000, and net loss of \$2,000. At March 31, 2003, the Board held assets of \$19,000. The Board's financial statements are included in its annual report.

Better processes to receive revenue needed

The Board needs to establish processes to ensure that it receives all application fees.

The Board employs one person to keep its books and records. In a small agency, it is often impossible to have adequate segregation of incompatible duties. That is, to ensure that no one person is in a position to conceal errors or frauds. To reduce the risk of errors and frauds occurring without timely detection, small agencies often establish other processes to compensate for the lack of segregation of duties.

The Board does not have an adequate segregation of duties for application fees from waterworks operators applying for certification. The Board's administrator receives the operators' applications with the application fees, records the application fees, deposits the fees, reconciles the bank account, and prepares financial reports. The Board should establish other processes to compensate for the lack of segregation of duties over application fees (e.g., pre-numbered certificates or a written contract with the Department to receive and record all revenue).

In 2003, the Board recorded application fees of \$23,000 from operators. However, we are unable to determine whether the Board recorded all application fees it received.

We reported this matter in our 2002 Fall Report – Volume 2 and previous reports and recommended that the Board establish rules and procedures to ensure it receives all application fees. PAC considered this matter in February 2002 and concurred with our recommendation.

The Board told us it plans to contract another agency to receive and record all cash receipts.

Reliability of the financial statements

The Board's financial statements for the year ended March 31, 2003 may not be reliable. As explained above, the Board did not have adequate processes to ensure that it receives all application fees. As a result, we could not determine whether the Board had recorded all revenue in its financial statements for the year ended March 31, 2003.

Financial plan needed

The Board did not approve a financial plan (budget) for the year setting out the resources it needs to accomplish its goals and objectives.

Agencies need to set out their goals and objectives so that they can determine what resources they need to achieve those objectives. *The Water Regulations, 2002* sets out the goals and objectives of the Board. However, the Board did not prepare and approve a budget for the year ended March 31, 2003 setting out what resources it needs to achieve those goals and objectives. Accordingly, the Board operated throughout the year without knowing whether the resources it used were appropriate to achieve its goals and objectives. The Board did receive regular financial reports reflecting actual results throughout the year. However, without a budget, these financial reports could not include a comparison of planned to actual results. Comparison of planned to actual results is a significant management tool to monitor financial performance.

3. **We recommend the Board prepare and approve a financial plan for its operations.**

The Board told us it has prepared and approved a financial plan for 2003-2004.

Saskatchewan Watershed Authority

The Saskatchewan Watershed Authority Act set up the Saskatchewan Watershed Authority (Authority) on October 1, 2002. The Authority replaces the former Saskatchewan Wetland Conservation Corporation. The Authority's mandate also includes certain activities that the Saskatchewan Water Corporation (Sask Water) did until October 1, 2002. These activities are ground and surface water investigations, water

management and dam safety programs, water control programs, and the regulation of development affecting water resources.

For the year ended March 31, 2003, the Authority held financial assets of \$4.8 million, capital assets of \$261 million, and had revenues of \$13.1 million, and expenses of \$12.7 million. The Authority's 2003 Annual Report includes its financial statements.

Better security needed

In past reports to the Legislative Assembly, we recommended that Sask Water set better security policies for its information technology (IT) systems and data. In December 2001, the Standing Committee on Crown Corporations concurred with our recommendation.

Sask Water transferred the corporate services component of its operations to the Authority on October 1, 2002. Therefore, the previous recommendations on security for Sask Water now apply to the Authority.

The Authority depends on a number of IT systems to deliver its services, ensure compliance with laws governing its services, and manage its financial affairs. As a result, the Authority must protect its IT systems and data from unauthorized access, unauthorized changes, and accidental or deliberate destruction.

The Authority does not have a formal security policy or an approved and tested disaster recovery plan. As a result, the Authority is at risk of disclosing confidential information, making decisions based on incorrect information, or losing information.

We continue to recommend that the Authority set appropriate security policies and procedures for its IT systems and data.

Management told us that the Authority has begun work to create a more formal corporate security policy that is based on the risks it faces and that integrates requirements related to the Government's privacy initiatives. Also, management told us that it has put new processes in place to ensure tighter security in certain areas.

Annual Report needs improvement

The Authority's annual report for the year ended March 31, 2003 needs improvement.

To assess the Authority's performance, legislators and the public need information about the Authority's plans and its progress in achieving those plans. Annual reports can provide this information.

We assessed the annual report using the Department of Finance's *Public Performance Reporting Guidelines* (see www.gov.sk.ca/finance). These guidelines are for annual reports prepared by Departments and Treasury Board Crown corporations.

We found that the annual report does not comply with those reporting guidelines. For example, the annual report does not set out the Authority's mission, goals, objectives or performance measures. As a result, the annual report does not show the Assembly and the public the Authority's progress in achieving its objectives.

- 4. We recommend that the Saskatchewan Watershed Authority prepare its annual report using the Department of Finance's reporting guidelines.**

Management told us that the Authority is committed to reporting in accordance with the annual report guidelines set out by the Department of Finance.

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Main points

In this chapter, we report the results of the audit of the Department of Finance (Finance) and the entities it controls.

The General Revenue Fund's (GRF) 2003 financial statements are not reliable. They do not record the GRF's pension liability of \$4 billion, and they understate the year's pension costs by \$24 million. The statements also inappropriately record an \$82 million transfer to the Fiscal Stabilization Fund as an expenditure and \$58 million as loans receivable from Crown corporations. As a result, Finance's accounting practices are not in accordance with generally accepted accounting principles for the public sector.

We have significant concerns with the GRF financial statements because the Government uses the GRF's annual surplus or deficit as one of its key performance indicators. In March 2003, the Government announced it would present a summary financial plan for the entire Government as part of the 2004-05 budget package. We are hopeful that the Government will report on its performance using this summary financial plan together with its summary financial statements, rather than using the GRF statements.

Finance did not comply with the reporting required by *The Balanced Budget Act*. Finance should have prepared the annual update report using accounting policies in place at the start of the four-year plan. Instead, beginning in 2003, Finance used different accounting policies for education capital projects to prepare the annual update report. As a result, in the annual update report, operating spending is understated and the cumulative surplus is overstated. In addition, the current balanced budget legislation only focuses on balancing the financial results of the GRF. If it is Government policy to have balanced budget legislation, the Government should consider legislation based on balancing the financial results of the entire Government.

Introduction

The Department of Finance (Finance) helps the Government and the Legislative Assembly manage and account for public money. It controls spending from the General Revenue Fund (GRF) and ensures that the GRF receives all revenue due to it. In addition, Finance prepares the Government's summary financial statements.

Finance:

- ◆ prepares the annual Budget Address, Estimates, and Public Accounts;
- ◆ arranges Government financing, banking, investing, and borrowing;
- ◆ provides policy and financial analysis to Treasury Board and Executive Council;
- ◆ develops tax policy alternatives;
- ◆ administers various tax, grant, and refund programs;
- ◆ provides economic forecasting and economic, social, and statistical data;
- ◆ administers public sector pension and benefit plans; and
- ◆ leads the Government's accountability project.

In 2003, Finance spent \$1.2 billion and collected revenue of \$5.2 billion. Revenue includes \$314 million of debt costs recovered from Crown agencies.

Special purpose funds and Crown agencies

Finance is responsible for the following special purpose funds and Crown agencies.

Year-end March 31

General Revenue Fund (GRF)
Fiscal Stabilization Fund¹
Public Employees Benefits Agency Revolving Fund
Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Pension Annuity Fund
Extended Health Care Plan for Retired Employees
Extended Health Care Plan for Certain Other Retired Employees

Year-end December 31

Extended Health Care Plan
Extended Health Care Plan for Certain Other Employees
Municipal Employees' Pension Commission
Municipal Financing Corporation of Saskatchewan
Public Employees Deferred Salary Leave Fund
Public Employees Disability Income Fund
Public Employees Dental Fund
Public Employees Group Life Insurance Fund
Saskatchewan Pension Plan
SaskPen Properties Ltd.²
Saskatchewan Power Corporation Supplementary Superannuation Plan

¹ The Department does not prepare financial statements for this Fund. As required by *The Fiscal Stabilization Fund Act*, a schedule of transfers and accumulated balance appears in Public Accounts Volume 1.

² The Government denied us access to this Crown agency; therefore, we could not audit the agency (see Chapter 8 of our 1999 Fall Report-Volume 2 for further discussion of the matter).

Financial Overview

The following is a list of Finance's major programs and spending for the year ended March 31, 2003. The financial information is from the *Estimates 2002-2003, Public Accounts 2002-2003: Volume 1: Main Financial Statements* (to view a copy of this report, see <http://www.gov.sk.ca/finance/paccts>) and *Saskatchewan Finance's Annual Report 2002-2003*.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Interest - GRF debt	\$ 633	\$ 611
Interest - Crown corporation debt	314	314
Total interest on debt	\$ 947	\$ 925
Pensions and benefits	188	247 *
Administration	39	37
	<u>\$1,174</u>	<u>\$1,209</u>

*Adjusted by \$61.5 million – see Pension Costs Reservation section.

The following is a list of Finance's major revenue sources:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Individual Income Tax	1,166	1,430
Interest - Crown corporations	314	314
Sales Tax	827	814
Transfers - CHST**	638	668
Transfers - Equalization	531	(9)
Fuel Taxes	358	332
Corporation Taxes	459	557
Tobacco Taxes	183	158
Income from Government Entities	686	672
Motor Vehicle Fees	117	117
Other	114	137
Total	<u>5,393</u>	<u>5,190</u>

** Canada Health & Social Transfer

Key risks

It is important that Members of the Legislative Assembly (MLAs) and the public know the key risks facing a department. Also, they should receive information on these risks to assess a department's performance. We think sharing our understanding with MLAs and the public will help them better assess Finance's performance.

Information on how Finance is managing its key risks can increase public confidence. Annual reports may provide this information to MLAs and the public. Finance prepares an annual report that includes important accountability information about its activities, goals, and challenges. We identified the following key risks Finance must manage well to be successful. It must:

- ◆ give Treasury Board accurate and useful information to enable it to develop, manage, and evaluate the Government's fiscal plan;
- ◆ publish useful planning and performance reports;
- ◆ manage the Government's debt;
- ◆ manage investments;
- ◆ collect revenues due to Finance;
- ◆ manage several government pension and benefit plans; and
- ◆ ensure designated government entities comply with Treasury Board's directives.

To identify these key risks, we reviewed *The Financial Administration Act*, 1993 and other legislative authorities. We also reviewed the Estimates, the Public Accounts, the Budget Address, Finance's annual report, and prospectus documents. In addition, we discussed these issues with key officials.

Our audit conclusions and findings

This chapter contains our audit conclusions and findings on Finance, its special purpose funds, and its Crown agencies for the year ended March 31, 2003, the Municipal Employees' Pension Commission and the Municipal Financing Corporation of Saskatchewan for the year ended December 31, 2002.

Our Office worked with KPMG LLP, appointed auditor for the Public Employees' Pension Plan and the Municipal Employees' Pension Commission and E.J.C. Dudley & Co. for Municipal Financing Corporation of Saskatchewan. We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report; see our web site at <http://www.auditor.sk.ca/rrd.html>).

In our opinion:

- ♦ the Government's summary financial statements, included in the Public Accounts 2002-2003 Volume 1 are reliable;
- ♦ the financial statements for the special purpose funds and Crown agencies listed above are reliable except for the GRF;
- ♦ the GRF's financial statements included in the Public Accounts 2002-2003 Volume 1 are reliable except that the transfer to the Fiscal Stabilization Fund, loans receivable from Crown corporations and all pension costs are not properly recorded;
- ♦ Finance, its special purpose funds, and its Crown agencies that we audited had adequate rules and procedures to safeguard public resources except for the matters reported in this chapter; and
- ♦ Finance, its special purpose funds, and its Crown agencies that we audited complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing and investing except where we report otherwise in this chapter.

In addition, the law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2003, the Government approved the spending of \$137.9 million by special warrant. It later included these special warrants in an appropriation act.

GRF financial statements

Our auditor's report on the GRF's financial statements for the year ended March 31, 2003 warns readers that the financial statements do not include all of the Government's financial activities. Therefore, readers should not use the GRF's statements to assess the Government's overall performance. The appropriate financial statements to use for that purpose are the Government's summary financial statements.

In addition, our auditor's report on the GRF's financial statements for the year ended March 31, 2003 includes three reservations. The financial statements are not reliable because they do not properly record transfers to the Fiscal Stabilization Fund, loans receivable from Crown corporations, and pension costs.

The combined effects of these three reservations are as follows:

- ♦ the transfer to the Fiscal Stabilization Fund of \$82 million overstates expenditures by \$82 million;
- ♦ transfers to Crown corporations, improperly recorded as loans, understate expenditures by \$58 million;
- ♦ pension costs are understated by \$24 million; and
- ♦ pension liabilities are understated by \$4.0 billion, assets are understated by \$0.5 billion, and accumulated deficit is understated by \$3.5 billion.

As well, the financial information reported in Volume 2 of the Public Accounts 2002-03 and some department annual reports is not reliable because it is based on information reported in the GRF financial statements.

For the reservation related to transfers to Crown corporations improperly recorded as loans, *Saskatchewan Learning's Annual Report 2002-2003* understates K-12 Education School Capital expenditures by \$7.1 million and Post-Secondary Capital expenditures by \$30.9 million. *Saskatchewan Agriculture, Food, and Rural Revitalization's Annual*

Report 2002-2003 understates crop insurance expenditures by \$20 million.

For the reservation related to pension expenditures, *Saskatchewan Learning's Annual Report 2002-2003* overstates expenditures by \$37.5 million for the Teachers' Superannuation Plan. *Saskatchewan Finance's Annual Report 2002-2003* understates expenditures by \$61.5 million for pension plans managed by the Public Service Superannuation Board.

Fiscal Stabilization Fund reservation

The Government records transactions between the GRF and the Fiscal Stabilization Fund (Fund) as GRF revenue or expenditure. The substance of the transactions between the GRF and the Fund is that amounts owed by the GRF to the Fund must be repaid to the GRF by the Fund. Canadian generally accepted accounting principles (GAAP) for the public sector do not allow the GRF to record changes in the amounts due to the Fund as revenues or expenditures of the GRF. The Government acknowledges that it does not follow GAAP for transfers to and from the Fund.

The GRF's 2003 financial statements show a liability of \$577 million owed to the Fund, an increase of \$82 million from 2002. This increase is recorded as a GRF expenditure. It is not appropriate to record the \$82 million as an expenditure because the Fund must return it to the GRF. Instead of recording an expenditure of \$82 million, the GRF should show an asset of \$577 million owed from the Fund.

The effects of not reporting this asset properly are as follows:

- ♦ the GRF's expenditure is overstated by \$82 million;
- ♦ the GRF's surplus is understated by \$82 million;
- ♦ assets are understated by \$577 million; and
- ♦ accumulated deficit is overstated by \$577 million.

The Legislative Assembly created the Fund in April 2000. The Fund's stated purpose is to stabilize the fiscal position of the Government from

year to year. However, making transfers from one fund to another, and back again, has no effect on the Government's overall annual surplus (deficit) and accumulated deficit. The Government's total accumulated deficit of \$9.3 billion is unaffected. Therefore, the only consequence of recording these transactions in the GRF's financial statements is that the actual amount of the GRF's surplus changes to another amount chosen by the Government. This is worrisome because the Government uses the amount of the GRF's annual surplus or deficit as one of its key performance indicators.

In previous years, we recommended that the GRF's financial statements record transfers to the Fund as an asset, not as an expenditure and any transfers back to the GRF as a reduction of that asset, not as revenue.

In February 2002, The Standing Committee on Public Accounts (PAC) considered this matter and disagreed with our recommendation.

We continue to recommend that the General Revenue Fund's financial statements record transfers in accordance with Canadian generally accepted accounting principles for the public sector.

Loans Receivable reservation

The GRF's financial assets include loans receivable from Crown corporations of \$3.6 billion. In some cases, these Crown corporations can only repay the loans due to the GRF if the Government gives them the money from the GRF to do so. GAAP for the public sector requires the Government to record such transactions as expenditures and not as loans receivable. At March 31, 2003, loans receivable from Crown corporations include \$58 million that those corporations cannot repay unless the Government gives them the money to do so. An example is the loans to the Education Infrastructure Financing Corporation (EIFC). For further discussion of these loans, see the section of this chapter titled *Compliance with The Balanced Budget Act*.

The effect of not recording these transactions properly is as follows:

- ♦ the GRF's expenditures are understated by \$58 million;
- ♦ the GRF's surplus is overstated by \$58 million;

- ♦ loans receivable are overstated by \$58 million; and
 - ♦ accumulated deficit is understated by \$58 million.
1. We recommend that the Government account for loans to Crown corporations in accordance with Canadian generally accepted accounting principles for the public sector.

Pension costs reservation

The GRF is responsible for the liabilities of several pension funds. However, the Government does not record these liabilities in the GRF's financial statements. Therefore, the Assembly and the public are unable to properly assess costs and liabilities because the financial statements do not include the GRF's total pension costs for the year or the unfunded pension liability. The financial statements only include the amounts the Government actually paid retired members or contributed to a pension fund that year. The effects of not properly recording pension costs are as follows:

- ♦ pension costs are understated by \$24 million;
- ♦ the GRF's surplus is overstated by \$24 million; and
- ♦ pension liabilities and accumulated deficit are understated by \$4.0 billion.

In previous years, we recommended that the Government account for pension costs in the GRF's financial statements in accordance with Canadian generally accepted accounting principles for the public sector.

In February 2002, PAC considered this matter and disagreed with our recommendation.

We note that Manitoba is the only other provincial government in Canada that publishes financial statements that do not follow The Canadian Institute of Chartered Accountants accounting standards for pensions.

Compliance with *The Balanced Budget Act*

Finance did not prepare the annual update report in accordance with *The Balanced Budget Act* (Act).

The Act requires that after each general election, the Minister shall prepare a four-year financial plan. The Minister shall present the plan to the Legislative Assembly at the same time as the budget estimates. Over the four fiscal years covered by the plan, the forecast of total expenses covered by the plan must balance with or be less than the forecast of total revenues for the same four fiscal years. The Minister presented the plan to the Assembly as part of the March 2000 budget address.

Also, the Act requires the Minister to present an annual update report on the Government's progress with regard to the four-year plan. The Minister provides this annual update report as part of the Budget Summary. The Act states that if the accounting policies or practices of the Government change significantly, the Minister shall note the change in the next annual update report presented to the Assembly following the change. The Act states the Minister shall not use the change in determining whether the Government has met the objectives set out in the four-year financial plan. Instead, the Minister is to use the accounting policies and practices that existed at the start of the four-year plan.

During 2002-03, the Government established the Education Infrastructure Financing Corporation (EIFC). EIFC borrows from the GRF and in turn lends money to educational institutions to finance all or part of capital projects. Prior to the change, the GRF reported the cost of education capital projects as expenditures. In 2002-03, instead of reporting the cost of education capital projects as an expenditure, the GRF reported them as loans receivable due from EIFC. These receivables totalled \$38 million. The Government intends to reduce the EIFC loan receivable annually by a fixed amount and to record that amount as an expenditure. This is a significant change to the accounting practices for the financing of education capital projects.

In March 2003, the Minister presented the third annual update report related to the four-year plan presented in 2000. The update report is set out in the following Exhibit.

GRF Financial Plan 2000-01 to 2003-04 ³				
(millions of dollars)	2000-01 (actual)	2000-02 (actual)	2002-03 (forecast)	2003-04 (budget)
Revenue	\$ 6,753.6	\$6,059.1	\$ 6,404.5	\$ 6,228.0
Operating Spending	5,256.8	5,721.2	5,784.4	5,970.6
Operating Surplus	1,496.8	337.9	620.1	257.4
Interest costs	664.1	616.8	618.0	650.0
Transfers (to) from the Fiscal Stabilization Fund	(775.0)	280.0	---	392.7
Budget Balance	57.7	1.1	2.1	0.1
Cumulative Balance	\$ 57.7	\$ 58.8	\$ 60.9	\$ 61.0

We expected the third annual update report to use the same accounting policies and practices that were in effect at the start of the four-year plan. However, the annual update did not use the same accounting policies and practices for capital projects financed by EIFC. Therefore, Finance did not prepare the annual update in accordance with the Act.

If the annual update had been prepared in accordance with the Act, the operating spending for 2002-03 would increase by \$38 million to \$5,822.4 million and the surplus would decrease by \$38 million from \$620.1 million to \$582.1 million. Also, assuming no other changes were made, the budget balance would decrease by \$38 million to a deficit of \$35.9 million and the cumulative balance for 2002-03 would decrease to \$22.9 million from \$60.9 million.

We also note the 2003-04 Estimates show loans of \$32.4 to EIFC and operating spending of \$7.2 million for repayments of EIFC financed capital projects, resulting in a net spending of \$25.2 million. If the annual update had been prepared in accordance with the Act, and assuming no other changes were made, the operating spending for 2003-04 would increase by \$25.2 million to \$5,995.8 million. Also, the resulting cumulative balance would show a deficit of \$2.2 million instead of a surplus of \$61.0 million.

³ Exhibit from page 57 of the 2003-04 Budget Summary

2. We recommend that Finance comply with *The Balanced Budget Act* by ensuring that the accounting policies and practices used to prepare the annual update report are consistent with those that were in place at the start of the four-year plan.

In addition, the current balanced budget legislation focuses on balancing the financial results of only one fund of the Government – the GRF. Balancing the financial results for the GRF does not result in balanced financial results for the entire Government. If it is Government policy to have balanced budget legislation, the Government should consider legislation based on balancing the financial results for the entire Government.

Prior years' recommendations

Annual pension costs not included in Estimates

In previous reports, we reported that the Assembly and the public are unable to assess pension costs properly because the Estimates do not include the GRF's estimated total pension costs for the year. The Estimates only include the amounts that the Government expects to pay retired members or contribute to a pension fund that year.

The effects of not including the GRF's total pension costs in the Estimates for the year ended March 31, 2003 are as follows:

- ♦ budgeted operating expenditures of \$5.7 billion are understated by \$25 million;
- ♦ the GRF's budgeted surplus of \$45,000 is overstated by \$25 million; and
- ♦ the budgeted accumulated deficit of \$7 billion is understated by \$4.0 billion.

In previous years, we recommended that Finance include the GRF's total pension costs for the year in the Estimates.

In February 2002, PAC considered this matter and disagreed with our recommendation.

This matter is important because the Government uses the GRF's budgeted surplus or deficit as one of its key performance indicators. If the budgeted surplus or deficit does not include the total estimated pension costs, it is difficult for the Assembly and the public to assess the Government's performance. As well, the Assembly makes decisions based on the belief that the budget is balanced. It might make different decisions if the budget included the correct amount of pension costs for the year.

In March 2003, the Government announced it would present a summary financial plan for the entire Government as part of the 2004-05 budget package. Finance proposed a model for a summary financial plan that was conceptually similar to the model we proposed in our 2002 Fall Report – Volume 1. We are satisfied with Finance's proposed model. This model will include the Government's total pension costs in the summary financial plan.

Public Service Superannuation Board

The Public Service Superannuation Board (Board) is responsible for administration of *The Public Service Superannuation Act* and other related legislation. The Board's primary objective is to provide superannuation allowances to employees who retire, and to dependants of deceased superannuates and employees, in accordance with the law.

The Board manages the Public Service Superannuation Plan (Plan). The Plan consists of the Public Service Superannuation Fund, the Anti-Tuberculosis League Employees Superannuation Fund, and the Saskatchewan Transportation Company Employees Superannuation Fund. The Plan is a defined benefit final average pension plan.

In 2002-2003, the Plan received contributions of \$5.5 million from employees and \$88.5 million from the GRF. At March 31, 2003, the Plan held assets of \$17.0 million and had liabilities of \$1,594.3 million.

Rules and procedures needed to assess the pension obligation

The Board needs to ensure that management has adequate rules and procedures to assess the accuracy of its pension obligation. Pension plans need periodic actuarial valuations of their pension obligations to prepare their financial statements. To calculate the pension obligations, actuaries use data that pension plans provide. Management is responsible to ensure that the data it provides to the actuary is complete and accurate. If the data is incomplete and inaccurate, it will result in an inaccurate calculation of the pension obligation. Management is also responsible to ensure that the data the actuary uses for the valuation is the data it provided.

The Board obtained an actuarial valuation as at December 31, 2002. The actuary extrapolated the results of the actuarial valuation to March 31, 2003 to value the pension obligation reported in the March 31, 2003 financial statements.

Management provided inaccurate and incomplete data to the actuary. The actuary calculated the valuation based on this data. Because management did not have rules and procedures to ensure the accuracy of its pension obligations, staff did not review the data provided to the actuary to ensure the data was complete and accurate. During our audit, we detected a number of errors in the data given to the actuary. The errors related to gender, length of service, salary, and indexing provisions. Management then supplied corrected data to the actuary. The revised data resulted in a \$28.7 million reduction in the Plan's reported pension obligation as at March 31, 2003.

3. **We recommend that the Public Service Superannuation Board establish rules and procedures to assess the accuracy of its pension obligation.**

Retired members' pensions

The Board needs information about retired members of the Plan who are receiving a pension and have returned to work for the Government. The Board needs this information to ensure it pays pensions in accordance with the law.

Requirements for stopping the pensions of retired members who return to work for the Government are set out in Section 27 of *The Superannuation (Supplementary Provisions) Act* (Act). The Act allows retired members to work as temporary, casual, or provisional employees for up to six months per year without a reduction in their pension. However, the Act requires the Board to stop the pension of a retired member who works for the Government for more than six months in a year. The Act also requires the Board to stop the pension of a retired member that the Government re-hires as a permanent employee when that member starts work.

The Board does not have rules and procedures to know if retired members are working for the Government. The Board relies on retired members notifying the Board upon re-employment with the Government. As a result, the Board cannot ensure that all pensions paid comply with the law. Accordingly, we cannot determine if the Board complied with section 27 of the Act.

We reported this matter in both our 2001 Spring Report and 2002 Fall Report. In November 2001, PAC considered this matter and concurred with our recommendation.

We continue to recommend that the Public Service Superannuation Board establish rules and procedures to ensure that all retired members who are receiving a pension and return to work for the Government are paid in accordance with the Act. Alternatively, the Board should seek changes to the Act.

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Main points

In this chapter, we continue to report our concerns with the reliability of the financial statements of the Saskatchewan Agricultural Stabilization Fund and the Agri-Food Innovation Fund. In our opinion, money transferred to these Funds from the General Revenue Fund is not being accounted for properly. We continue to await the results of a project undertaken by The Canadian Institute of Chartered Accountants (CICA) on government transfers. We expect this project to clarify the accounting standards in this area and address the matters we raise in this chapter.

This chapter also includes the results of our audits of the Department, its special purpose funds, and its Crown agencies. We concluded that they had adequate processes to safeguard public resources and they complied with authorities governing their activities. Also, with the exception of the two funds noted above, their financial statements are reliable.

Introduction

The mandate of the Department is to foster a self-sufficient and sustainable Saskatchewan agricultural and food sector; and healthy and diverse rural communities. Working with individuals, businesses, communities, and governments, the Department assists farmers and ranchers; encourages higher value production and processing; and promotes sustainable economic and social development in rural Saskatchewan.

Financial overview

The following table sets out the Government's total expenditures and revenues for the agricultural programs it administers through the Department and other agencies that the Government controls. This information is reflected in the Government's summary financial statements for the year ended March 31, 2003.

	<u>2003</u>	<u>2002</u>
	(millions)	
Agricultural expenditures by program:		
Crop insurance	\$ 1,126	\$ 374
Farm sector initiatives	88	306
Farm Land Education Tax Rebate Program	---	21
Farm income stability (NISA*)	50	47
Other	64	89
	<u>\$ 1,328</u>	<u>\$ 837</u>
Agricultural revenues by source:		
Federal Government	\$ 565	\$ 235
Producers' crop insurance premiums	86	67
Interest on loans and investments	7	11
Sales, services, fees, permits, and other	36	44
	<u>\$ 694</u>	<u>\$ 357</u>
* Net Income Stabilization Account		

The Department's 2002-2003 Annual Report contains information about the Department's revenues and expenditures. Revenues and expenses of the Department's special purpose funds and Crown agencies listed below are reported in the Public Accounts compendium (to view this report, see <http://www.gov.sk.ca/finance/paccts/paccts03/compendium/compintro.htm>).

except for agencies under the Agricultural and Food Products Development and Marketing Council, which are reported in the Council's annual report.

Special purpose funds and Crown agencies

The Department is responsible for the following special purpose funds and Crown agencies:

	<u>Year-end</u>
Agricultural Credit Corporation of Saskatchewan	March 31
Agricultural Implements Board	March 31
Agri-Food Equity Fund (wound up February 2003)	March 31
Agri-Food Innovation Fund	March 31
Beef Development Board	March 31
Cattle Marketing Deductions Fund	March 31
Horned Cattle Fund	March 31
Livestock Services Revolving Fund	March 31
Milk Control Board	December 31
Pastures Revolving Fund	March 31
Prairie Agricultural Machinery Institute	March 31
Saskatchewan Agricultural Stabilization Fund	March 31
Saskatchewan Crop Insurance Corporation	March 31
Crop Reinsurance Fund of Saskatchewan	March 31

Crown agencies under the Agricultural and Food Products Development and Marketing Council

Saskatchewan Alfalfa Seed Producers' Development Commission	July 31
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31
Saskatchewan Canola Development Commission - Canodev Research Inc.	July 31 July 31
Chicken Farmers of Saskatchewan	December 31
Saskatchewan Egg Producers	December 31
Saskatchewan Flax Development Commission	July 31
Saskatchewan Pulse Crop Development Board	August 31
Saskatchewan Sheep Development Board	September 30
Saskatchewan Turkey Producers' Marketing Board	December 31
Sask Pork	July 31

Our audit conclusions and findings

This chapter contains our audit conclusions and findings for the Department, its special purpose funds, and its Crown agencies with fiscal years ending on March 31, 2003.

We did not participate in the audits of agencies under the Council except for Sask Pork, Saskatchewan Canola Development Commission, and Canodev Research Inc. Instead, as part of our audit of the Department, we examine the supervisory work carried out by the Council regarding those agencies' financial statements, and their processes to safeguard public resources and comply with legislative authorities.

Our Office worked with the following appointed auditors:

- ◆ KPMG LLP
 - Saskatchewan Agricultural Stabilization Fund
 - Saskatchewan Crop Insurance Corporation
 - Crop Re-insurance Fund of Saskatchewan
- ◆ PricewaterhouseCoopers LLP
 - Agricultural Credit Corporation of Saskatchewan

We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our web site at <http://www.auditor.sk.ca/rrd.html>). Our Office and the appointed auditors formed the following opinions.

In our opinion:

- ◆ the Department, its special purpose funds, and its Crown agencies had adequate rules and procedures to safeguard public resources;
- ◆ the Department, its special purpose funds, and its Crown agencies complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing; and

- ♦ the financial statements of the Department's special purpose funds and Crown agencies are reliable except for the Saskatchewan Agricultural Stabilization Fund and the Agri-Food Innovation Fund. In KPMG's opinion, the financial statements of the Saskatchewan Agricultural Stabilization Fund are reliable.

We did not rely on KPMG's opinion on the Saskatchewan Agricultural Stabilization Fund's financial statements.

The Provincial Auditor Act requires us to do additional work when we are unable to rely on the report of an appointed auditor. Our additional work consisted of reviewing the agreements between the Governments of Canada and Saskatchewan, and discussion with the Department's management.

Importance of financial statements

Good financial reporting is essential to understand and assess financial performance of government agencies. Members of the Legislative Assembly (MLAs) and the public need useful information to understand and assess the performance of government agencies. Agencies use financial statements to demonstrate their accountability for the public resources entrusted to them and to provide information useful in evaluating their financial performance.

To understand and assess performance, MLAs and the public need government agencies to follow rigorous accounting rules that report their financial results in a consistent and comparable manner. Also, they need this information in a timely manner.

When government agencies do not follow rigorous accounting rules, they increase the risk that their annual financial statements may misstate their financial results. Incorrect financial statements increase the risk that MLAs and the public will make incorrect assessments about the agency's financial performance.

In June 2001, The Canadian Institute of Chartered Accountants (CICA) announced it would begin a project to address the differences that have arisen in the interpretation and application of accounting standards

concerning government transfer payments. The CICA continues to work on this project. Clarification of these standards will help to address the matters we raise in this chapter concerning the reliability of the financial statements.

Saskatchewan Agricultural Stabilization Fund and Agri-Food Innovation Fund

The Department administers the Saskatchewan Agricultural Stabilization Fund (SASF) and the Agri-Food Innovation Fund (AFIF).

Saskatchewan Agricultural Stabilization Fund

SASF reports the transactions of the following eight programs:

- The New Crops Insurance Program
- The Big Game Damage Compensation Program
- The Waterfowl Damage Compensation Program
- The Agricultural Income Disaster Assistance Program (AIDA)
- The Canadian Farm Income Program (CFIP)
- The Unseeded Acreage Benefit Program
- Canada-Saskatchewan Adjustment Program
- Canada-Saskatchewan Assistance Program

SASF's 2003 Annual Report includes its financial statements for the year ended March 31, 2003. Those financial statements report revenues of \$70.1 million and expenses of \$74.7 million. The financial statements also report net financial assets of \$10.0 million at March 31, 2003.

Agri-Food Innovation Fund

The purpose of this Fund is to enhance the diversification of the agri-food industry, support research and development, and encourage the creation of economic opportunities and jobs.

AFIF's 2003 Annual Report includes its financial statements for the year ended March 31, 2003. Those financial statements report net financial assets of \$5.7 million, revenue of \$0.2 million and a deficit for the year of \$5.5 million.

The Governments of Canada (Canada) and Saskatchewan agreed to share the costs of these programs. The Government of Saskatchewan administers all the programs except AIDA and CFIP. Canada administers AIDA and CFIP. The laws governing these programs and the agreements between Canada and Saskatchewan require that all money paid into SASF and AFIF can only be used for the purposes of these programs. In addition, the Department must return any money received and not used to pay for program costs to Canada and Saskatchewan at the end of the programs. SASF and AFIF operate on a break-even basis except for the interest income earned on advances, which they may keep. Accordingly, these advances should be recorded as liabilities (i.e., as amounts owed back to Canada and Saskatchewan) until SASF and AFIF incurs program costs. When SASF and AFIF incurs program costs, they should deduct an equal amount from liabilities and record it as revenue to offset the program costs.

Reliability of the financial statements

The financial statements of SASF and AFIF are not reliable.

SASF's 2003 financial statements understate revenue and overstate its annual deficit (i.e., annual loss) for 2003 by \$3.0 million. Also, the financial statements understate SASF's liabilities (what it owes to others) by \$4.4 million. This information gives readers of the financial statements the wrong message. The message given is that expenses exceed revenue by \$4.6 million and that SASF has \$10.0 million on hand that it can keep because it is no longer required to pay for future program costs. In fact, SASF's revenues were higher by \$3.0 million in 2003. In addition, it must either use \$4.4 million of the reported net assets to pay for future program costs or return the money to the General Revenue Fund (GRF).

AFIF's 2003 financial statements understate its revenues by \$5.5 million and overstate its deficit for the year by \$5.5 million. This information gives readers of the financial statements the wrong message. Since its inception, the Fund received \$28 million in advances from the GRF, which it recorded as revenue when received. To March 31, 2002, the Fund incurred \$22.5 million in related program costs. It incurred additional costs of \$5.5 million in 2003. The Fund should have recognized revenue of \$5.5 million from the GRF for the year ended March 31, 2003 when it incurred these remaining project costs.

The errors in SASF's and AFIF's financial statements result from the Department incorrectly recording advances from the GRF. The Department correctly records all money received from Canada. The Department records revenue equal to Canada's share of program costs. The Department records money received from Canada in excess of its share of program costs as a liability owing to Canada until the Department incurs costs under the program. This accounting follows the accounting standards of the CICA. However, the Department incorrectly records money received from the GRF. It records this money as revenue immediately, regardless of when the Department incurs the program costs.

The Department should record money received in advance as a liability and later as revenue when it incurs program costs. Also, because SASF and AFIF operate on a break-even basis for the money received from Canada and Saskatchewan, their only net assets should be interest earned on advances.

We also reported this matter in our 2002 Fall Report – Volume 2 and in previous reports.

We continue to recommend that the Department record money received from the GRF as a liability of SASF and AFIF until they incur the related program costs or until they return the money to the GRF.

The Department thinks that because SASF, AFIF, and the GRF are part of the Provincial Government, any restrictions between them cannot be considered external. Therefore, the Department thinks it is appropriate to record the money received from Canada and the GRF differently.

We disagree. We think it is irrelevant that SASF, AFIF, and the GRF are part of the Provincial Government. The shared-cost agreements between Canada and Saskatchewan restrict the use of money contributed under those agreements for specific purposes. The GRF provided money under the agreements and until SASF and AFIF spend the money for those purposes, they have a debt to the GRF.

On November 5, 2002, the Standing Committee on Public Accounts (PAC) considered this matter. PAC deferred a decision on our

recommendation pending the results of the CICA project that is examining accounting standards concerning government transfer payments.

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Main points

Government infrastructure includes a wide range of physical assets used to provide public services, such as transportation, communication, and energy. In Saskatchewan, some of the Government's key risks relate to public infrastructure. Factors contributing to these risks are advancing technology, a shifting population base, and an aging infrastructure. Costs to purchase, operate, and maintain infrastructure are significant.

Legislators, managers, and the public require information about how the Government manages these risks. Good information supports sound decisions. It also helps the public to understand those decisions.

In this chapter, we report on the adequacy of information given to the public by two agencies with significant infrastructure—Saskatchewan Transportation Company (STC) and Saskatchewan Property Management Corporation (SPMC).

STC provided the public with good information about its vehicles, but needs to provide further information about its facilities. SPMC needs to expand its information about its facilities and vehicles. Using the Government's accountability framework, SPMC expects to improve information about its infrastructure over the next few years. With better information, legislators and the public will be able to assess whether these corporations manage their infrastructure appropriately.

Introduction

Governments use public infrastructure to provide a wide range of public services. The nature of government infrastructure varies (e.g., roads, gas lines, power plants, and communications networks). In Saskatchewan, the Government has over \$10 billion invested in infrastructure and spends significant resources each year to buy, improve, and maintain it.

In recent years, our Office has encouraged the Government to assess its management of infrastructure and improve the information on infrastructure that it gives to the public.

In Chapter 4 of our 2000 Fall Report – Volume 3, we discussed the key risks that governments face related to their investment in infrastructure. To reduce these risks, governments must adequately manage how they:

1. Plan for infrastructure needs
2. Set clear responsibility for infrastructure
3. Maintain the capacity of infrastructure
4. Maintain good information, and
5. Keep the public informed.

In Chapter 2 of our 2002 Fall Report – Volume 2, we reported on how well two government agencies – SaskEnergy Incorporated (SaskEnergy) and the Department of Highways and Transportation (Highways) keep the public informed about their infrastructure.

In this chapter, we report on the adequacy of the information on infrastructure that two other government agencies provide—Saskatchewan Transportation Company (STC) and Saskatchewan Property Management Corporation (SPMC). We chose these two agencies because, in common with SaskEnergy and Highways, they each have a significant investment in infrastructure.

Background

The infrastructure owned by STC and SPMC is integral to each of their operations and supports their delivery of public services.

STC provides transportation and courier (express) services in Saskatchewan. It recognizes that the public expects to receive these services in a safe, reliable, and affordable manner. Its key infrastructure consists of a fleet of 38 coaches and vans, a freight truck and freight trailers, as well as facilities consisting of three passenger and express depots and two service garages¹.

At December 31, 2002, STC had assets of \$19.3 million and annual operating expenditures of \$17.5 million. During the year, STC received a capital grant of \$2.4 million. Of this, \$1.8 million was designated for the purchase of new coaches and freight trailers².

SPMC provides services (e.g., accommodation, fleet vehicles) primarily to government departments, Crown corporations, and other Crown agencies. It expects to provide these services in a cost-effective manner and sustain the related infrastructure over the long term. Its key infrastructure consists of 1,260 buildings that it owns or manages, a fleet of 4,500 vehicles, and six aircraft³.

At March 31, 2003, SPMC's key infrastructure had a net book value of \$378 million comprised of \$342 million for buildings, \$20 million for vehicles, and \$16 million for aircraft. During the year, SPMC spent \$111.4 million⁴ on the management and maintenance of its properties.

Audit objective, process, and criteria

We assessed the adequacy of information made public (e.g., in annual reports, on web sites) by STC and SPMC in 2002 and the first seven months of 2003. Legislators and the public need information to know if governments are properly managing their infrastructure.

Throughout our audit, we followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

¹ *Made in Saskatchewan for Saskatchewan, STC 2002 Annual Report*, p. 9.

² *Ibid.*

³ Government of Saskatchewan, *SPMC 2002-2003 Annual Report*, pp. 3-4. Managed buildings include buildings leased by SPMC for provision of accommodation services.

⁴ Government of Saskatchewan, *SPMC 2002-2003 Annual Report* (\$111.4 million is comprised of property management of \$76.6 million, other property management of \$29.1 million and property maintenance of \$5.7 million.)

The criteria, set out in Exhibit 1, describe the essential content for adequate public reports about the Government's infrastructure.

Exhibit 1 – Criteria for public information on key infrastructure

Adequate public information about key infrastructure that a government agency uses to provide public services should briefly describe:

- 1. the capacity of each major category of infrastructure**
 - key infrastructure available for use
 - cost of the infrastructure
 - condition of the infrastructure
 - maximum service that the infrastructure could produce in its current condition
- 2. the extent to which the use of key infrastructure achieved planned results**
 - actual operating results compared to plans
 - actual financial results compared to plans
 - reasons for major differences between results and plans
- 3. the strategies used to manage major risks of the key infrastructure**
 - identify major risks that may affect the key infrastructure
 - actions taken or planned to reduce major risks to acceptable levels

We used these criteria in similar audits of information that SaskEnergy and Highways made public about their infrastructure. Officials from STC and SPMC agreed with these criteria. In addition, SaskEnergy, Highways, Executive Council, the Department of Finance, and the Crown Investments Corporation of Saskatchewan (CIC) support the criteria.

With the help of key officials from STC and SPMC, we identified relevant information that each made public during the audit period. STC consistently used its annual report as the primary way to provide information on its key infrastructure to the public. It also used its semi-annual financial reports, its web site, and presentations to committees of the Legislative Assembly as opportunities to provide additional information.

SPMC took a different approach. Instead of relying primarily on its annual report, it used other methods to provide the public with information on its key infrastructure. These methods included its web site and key

publications such as its Strategic Business Plan, accommodation manual, and a study that developed standards for courthouse facilities in the province.

We compared this information to the criteria in Exhibit 1.

Conclusions

For the audit period, STC provided the public with good information about its fleet of vehicles, but needs to improve information on its facilities as explained in this chapter.

For the audit period, SPMC provided the public with adequate information about its key infrastructure, except as follows. As explained in this chapter, SPMC needs to provide better information about the capacity of its infrastructure and the extent to which it achieved planned results.

Key findings by criteria

For each criterion, we set out our expectations (in italics) and our key audit findings for each agency.

Capacity of each major category of infrastructure

Information about infrastructure will describe capacity in terms of:

- ♦ *the nature and location of key infrastructure available for use;*
- ♦ *the cost of the infrastructure and the method used to measure the cost;*
- ♦ *the processes used for maintaining the infrastructure in good working condition and the average remaining lifespan of each major category of infrastructure; and*
- ♦ *the maximum service capacity of the infrastructure.*

For STC, infrastructure is its fleet of vehicles (i.e., coaches, vans, a truck, and freight trailers) and facilities (i.e., depots and garages). STC provides the public with the number and size of its vehicles, as well as the number and locations of its service garages and passenger and express depots.

STC consistently sets out the original cost, accumulated amortization, and net book value (i.e., depreciated value) by category, its cost of repairs, and the nature and amount of additional infrastructure purchased each year.

STC describes the type and volume of transportation services (i.e., passenger, courier, and charter) it provides. By stating the number and seating capacity of its coaches (e.g., 15-seater to 55-seater), number of communities served, miles of bus service, and load factors, STC provides the public with information that assists its understanding of the fleet's capacity.

For its facilities (i.e., garages and depots), STC notes their locations and indicates that their primary use is to support the delivery of the passenger and express services. However, further information is limited. This makes it difficult for the public to understand if these facilities are used to their maximum capacity or if alternative uses are feasible.

In addition, STC states the average age of its vehicles (e.g., actual average age at December 31, 2002 was 7.13 years) and uses it as a key performance measure. Although STC notes the Regina garage is aging, it does not provide information on the age or condition of facilities. In its financial statements, STC sets out a range of estimated useful lives for each major category of infrastructure (e.g., vehicles 3 to 15 years, buildings 10 to 40 years) and the cost and net book value of each. STC should consider publishing the remaining lifespan of its infrastructure to increase the public's understanding.

Integral to the condition of infrastructure is the nature and extent of its maintenance. STC reports that the primary purpose of its garages is for vehicle maintenance. Further, STC indicates that the coaches meet standards set by the Federal Government. To increase the public's awareness of these standards, STC could tell the public where to obtain access to these standards.

In some of its reports, STC cites the need to correct deficiencies at its facilities, but does not clearly indicate the nature of these deficiencies or explain other key processes it uses to maintain its facilities.

Overall, the information STC makes available provides the public with a good understanding of the condition of its vehicles. However, more information is needed on its facilities to enhance the public's awareness of their condition.

1. **We recommend that STC provide the public with additional information about the current condition of its facilities to help explain their capacity.**

For SPMC, its infrastructure consists of facilities (i.e., land and buildings that it owns and/or manages), vehicles, and aircraft. SPMC provides the public with general descriptions of the types of its facilities (e.g., office space, storage, special purpose such as courthouses and health care facilities). It reports the number of each. For its vehicles, it indicates the number of client groups (i.e., 330) and their average annual usage (i.e., 70 million kilometres per year).

SPMC states the specific location of some facilities (i.e., its offices, courthouse facilities, vehicle depots) and indicates they are in 165 communities and 25 provincial parks. Unfortunately, this does not indicate the primary geographic locations of its facilities (e.g., percentage in Regina or other urban centres). Information on primary geographic locations help the public to better understand the service potential of the infrastructure and potential risks in the event of a disaster, an economic downturn, or other factors that may affect infrastructure.

Similar to STC, SPMC consistently sets out in its financial statements the original cost, accumulated amortization, and net book value (i.e., depreciated value) of each major category of infrastructure. It also provides the cost of repairs and the amount of purchases of additional infrastructure in each year.

SPMC describes the types of services that each category of key infrastructure can produce, but does not set out the volume of services it can provide over its remaining lifespan. For its facilities, SPMC could state the square metres of available office space, cubic metres of storage space, the amount, and type of vacant space it holds, or occupancy rates. For its vehicles, SPMC could set out the average number of standby vehicles. This would help the public understand the extent of unused capacity.

SPMC sets out a range of estimated useful lives for each major category of its infrastructure (e.g., equipment including vehicles and aircraft 2 to 20 years, buildings 1 to 55 years with average estimated useful life of 20 years). It does not provide the current lifespan of its facilities and vehicles.

SPMC clearly indicates the number of buildings that it maintains (i.e., 543 out of the 937 that it owns), and the number that tenants maintain (i.e., the remaining 394). It provides information about the key processes used to maintain its facilities (e.g., risk management, strategic planning, property and liability insurance). It also notes that it has a backlog of essential maintenance and major renovation projects⁵. But SPMC does not provide the extent of the backlog or the impact on the current condition of its facilities.

For situations where tenants agree to maintain SPMC's facilities, SPMC must have processes to ensure the tenants carry out this responsibility effectively. SPMC does not provide the public with information on such processes.

In addition, SPMC provides limited information about processes it uses to maintain its vehicles and aircraft.

Without further information about the condition of its infrastructure (e.g., percentage in compliance with related codes or safety standards, average remaining service life), it is difficult for the public to understand the condition or capacity of SPMC's key infrastructure.

2. **We recommend that SPMC provide the public with additional information about the capacity of its facilities and vehicles including their current condition and potential volume of service.**

Extent to which the use of key infrastructure achieved planned results

Government agencies should provide the public with sufficient information to decide whether the use of public infrastructure helped the Government to achieve its planned operating and financial results. Government

⁵ SPMC, 2002-2003 Annual Report, p. 16.

agencies should compare actual results to targets for key operational information (e.g., number and duration of service interruptions or downtimes, public safety and reliability, impact of the infrastructure on the environment).

Agencies should also compare actual financial results to key financial targets (e.g., expected return on investment, budgeted acquisition, operating or maintenance costs). We also expect agencies to report the reasons for significant differences between planned and actual results for both operational and financial information.

STC uses a performance reporting model called the Balanced Scorecard. Using this model, STC sets out its key performance measures. For each measure, it provides its current-year target, actual result, and the next year's target. A number of these measures relate directly to its use of its vehicles (e.g., for volume, quality, and continuity of services).

In its reports, STC clearly indicates that it uses its facilities to support services related to its vehicles. As such, STC directly links a few of its performance measures to its use of its facilities. Exhibit 2 includes examples of STC's measures and their related objective.

Exhibit 2 – STC performance objectives and measures

Objective	Measure
Match seats in fleet more closely to customer demand	Load factor
Maintain safety	Percentage of preventable-accident free miles driven
Customer satisfaction	Ridership surveys
Ensure Corporation's asset base	Average age of fleet
Our routes serve a significant portion of rural Saskatchewan	Miles traveled Communities served
We work to protect our environment	Percentage improvement in fuel efficiency Average age in years of newer, more fuel efficient coaches
We ensure our equipment is correct for our needs	Load factor
We live within grants given us by our stakeholders	Amount of operating and grants

Objective	Measure
We keep our operating costs as low as possible	Subsidy per mile
Source: STC, 2002 Annual Report	

STC recognizes the value of industry comparisons in explaining its use of its fleet but clearly notes that comparative industry information is not readily available. In its annual reports, STC clearly explains the reasons for significant differences between its planned and actual results. It also explains changes in future plans.

With this information, STC provides the public with very good information on the extent to which it uses its fleet to achieve its plans.

SPMC has started to implement the Government's Accountability Framework⁵. Unlike STC, SPMC has not yet provided the public with its key performance measures. In its 2002-2003 Annual Report, it clearly indicates that it expects to report results based on its goals and objectives in the future.

Although SPMC does not provide the public with a comparison of its operational plans to actual results, SPMC's 2002-2003 Annual Report provides the public with more information than it did previously. This Report includes an overview of some of SPMC's key plans for its infrastructure and more clearly describes the services that it provides with its infrastructure. It reports "Sustainable Property Infrastructure" as a key goal.

We encourage SPMC to select performance measures and targets that directly link to its objectives for its key infrastructure. It should then report on its achievement of these targets. This will help to inform the public about how well SPMC has done in achieving its plans.

In its annual reports, SPMC provides limited information about the achievement of its financial plans. It compares its planned revenues and expenses to its actual results but only briefly explains significant differences. In its financial statements, it states the nature and amount of infrastructure purchased each year. However, it does not set out the

⁵ Additional information on the Government's Accountability Framework is available on the Department of Finance's website at <http://www.gov.sk.ca/finance/accountability/> (October 31, 2003)

planned level of purchases. SPMC's financial results set out its property maintenance costs, but not the costs to maintain its vehicles and aircraft.

Overall, SPMC does not provide sufficient information on the extent to which it uses its facilities, vehicles, and aircraft to achieve its plans.

3. **We recommend that SPMC provide the public with additional information about the extent to which the use of its key infrastructure (i.e., facilities, vehicles, and aircraft) achieved its operational and financial plans, and explain significant differences between actual and planned results.**

Strategies used to manage key risks of the infrastructure

Government agencies should describe the major risks that affect each major category of their infrastructure. Risks may include those common to the industry, risks related to deferred maintenance, changes in technology, and health or safety concerns. Agencies should also outline their actions to reduce these risks to acceptable levels.

STC describes key trends and other factors that impact its operations. For example, it explains how the province's changing demographics (e.g., increased urbanization, high reliance on private vehicles, state of highway system) impacts the number and types of passengers who ride buses.

Although not explicitly described as risks, **STC** provides sufficient information to allow the public to determine that its risks centre on the safety and security of passengers, maximizing the recovery of costs, and managing potential changes in competition. A number of **STC**'s performance measures reflect its key strategies and actions to manage and reduce these risks. For example, to address safety risks, **STC** tracks the percentage of accident-free miles and preventable-accident free miles. To minimize costs, **STC** is working towards matching the size of its coaches to suit the needs of the public. To do this, **STC** replaces older coaches with new ones of a suitable size.

STC provides the public with adequate information on the strategies it uses to reduce major risks facing its vehicles. However, it provides limited information about risks facing its facilities (i.e., depots and service garages).

STC's facilities are important for the delivery of its services. STC relies on its garages to provide maintenance services and its depots to manage the flow of its passengers and express customers. STC briefly notes structural deficiencies in some of its buildings but provides limited information on planned actions.

4. We recommend that STC provide the public with additional information about the strategies used to manage major risks facing its facilities by describing the actions it is taking to reduce these risks to an acceptable level.

SPMC clearly indicates that it operates within limited financial resources and therefore must provide cost-effective services. A key risk that SPMC faces is that it must appropriately maintain its facilities to ensure future viability. SPMC reports a backlog of essential maintenance. SPMC does not clearly explain what it plans to do to reduce this risk.

SPMC explains some of its other risks in general terms. It provides information about some of its key corporate and operational risks and environmental issues that affect the capacity of its infrastructure. For example, its risk management and operational staff work together to identify risks and develop practical, cost-effective approaches to reduce these risks. For example, SPMC notes its use of property and liability insurance to protect against financial loss due to unforeseen circumstances.

SPMC could provide more information about other risks it faces. For example, SPMC is at risk that its tenants who agree to maintain facilities will not do so adequately. SPMC should describe this risk and what it is doing to reduce it.

Providing additional information on the current level of major risks, plans to reduce these risks, as well as the level of risk that SPMC considers acceptable would help the public understand the residual risks. We note that under the Government's Accountability Framework, SPMC is not yet required to report the risks it faces. SPMC will be required to report these risks in 2005.

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Main points

We are pleased that the Department of Finance has recently established guidelines for preparing the annual reports for all departments and Treasury Board Crown corporations. The guidelines contain a four-year implementation schedule, recognizing that improved public reporting takes time and resources.

The guidelines are based on sound performance reporting principles that will enable government agencies to effectively report their progress in achieving their plans.

Our assessment of the annual reports of all departments and three Crown agencies for the year ended March 31, 2003 showed that the annual reports comply with the content requirements of the Department of Finance's reporting guidelines. The annual reports contain more and better performance information than previous reports. They provide better information to help the Legislative Assembly and the public to assess the agencies' performance.

Introduction

For many years, our Office has encouraged improved performance reporting by the Government and its agencies. So, we are pleased that the Department of Finance, in 2003, set guidelines for preparing the annual reports for all departments, Saskatchewan Liquor and Gaming Authority, Saskatchewan Property Management Corporation, and Saskatchewan Public Service Commission.

The Department has set out this guidance in its 2003 *Public Performance Reporting Guidelines* together with a four-year implementation schedule. We think that the Department of Finance's reporting guidelines and implementation schedule are adequate and reasonable. The guidelines are based on public reporting principles developed by the CCAF-FCVI¹ and set out in a publication called *Reporting Principles – Taking Public Performance Reporting to a New Level*.

The CCAF-FCVI's publication is the result of a multi-year project on public performance reporting, which involved extensive research and consultation with government managers, auditors, and legislators throughout Canada. All legislative auditors in Canada have agreed to use these reporting principles when assessing government annual reports in their jurisdictions.

Annual reports of government agencies are key accountability documents. Annual reports prepared in accordance with the Department of Finance's guidelines should help the Legislative Assembly and the public to assess the performance of government agencies. In this chapter, we report our assessment of recently prepared annual reports using the Department's guidelines.

Our audit objective

The objective of this audit was to determine whether the annual reports of all departments and three Crown agencies listed in Exhibit 2 for the year ended March 31, 2003 comply with the content requirements of the Department of Finance's reporting guidelines.

¹ CCAF-FCVI is a public-private partnership that "is a source of support, leading edge research and capacity for members of governing bodies, executive management, auditors, and assurance providers."

For purposes of this report, all departments and the three agencies noted above are referred to as agencies.

Our audit was limited to examining the content of the agencies' annual reports. Our audit did not assess whether the information in the annual reports is relevant and reliable. For example, we did not assess the accuracy, completeness, or validity of underlying information systems or data used to prepare the performance information.

We followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

Expectations for annual reports

Criteria represent our expectations, the main elements we look for in our audit. The audit criteria listed in Exhibit 1 are based on the Department of Finance's guidelines (see <http://www.gov.sk.ca/finance/>) for public performance reports.

The Department of Finance's reporting guidelines recognize that implementing performance reporting principles into annual reports will take time and resources. Accordingly, the guidelines contain a multi-year implementation schedule that recognizes that some reporting principles are more difficult to implement than others. For example, reporting on key risks, costs of activities, capacity, and performance targets is not required until future years.

Exhibit 1 – Audit criteria

1. **Focus on the few critical aspects of performance**
 - focus selectively and meaningfully on a small number of things
 - centre on core objectives and commitments
2. **Look forward as well as back**
 - set out the goals and how activities contribute to the goals
 - track achievements against expectations
3. **Explain key risk considerations**
 - identify the key risks
 - explain the influence of risk on choices and directions and relate achievements to levels of risk accepted
4. **Explain key capacity considerations**
 - discuss capacity factors that affect the ability to meet expectations
 - describe plans to align expectations and capacity
5. **Explain other factors critical to performance**
 - explain general factors such as changes in the economic, social, or demographic environment that affect results
 - discuss specific factors such as standards of conduct, ethics, and values; or performance of other organizations that influence performance
 - describe unintended impacts of activities
6. **Integrate financial and non-financial information**
 - explain the link between activities and desired results
 - show spending on key strategies and explain how changes in spending affect results
7. **Provide comparative information**
 - provide comparative information about past performance and about the performance of similar organizations when relevant, reliable and consistent information is reasonably available
8. **Present credible information fairly interpreted**
 - present information as credible as reasonably possible
 - explain management's involvement, judgment, and basis for interpretation of performance
 - information is consistent, fair, relevant, reliable and, understandable
9. **Disclose the basis for reporting**
 - explain the basis for selecting the few critical aspects of performance on which to focus
 - describe changes in the way performance is measured or presented
 - set out the basis on which those responsible for the report hold confidence in the reliability of the information being reported

Our findings and conclusions

We found that the agencies' annual reports for the year ended March 31, 2003 comply with the content requirements of the Department of Finance's reporting guidelines. The annual reports contain more and better performance information than previous reports and thus enhance the public accountability of the agencies.

Our future plans

We plan to continue to assess the progress agencies make to implement the Department of Finance's reporting guidelines in their annual reports. We will report the results of those assessments in future reports.

Exhibit 2 – Annual reports assessed

Department of Agriculture, Food and Rural Revitalization
Department of Community Resources and Employment
Department of Corrections and Public Safety
Department of Culture, Youth and Recreation
Department of Environment
Department of Government Relations and Aboriginal Affairs
Department of Finance
Department of Health
Department of Highways and Transportation
Department of Industry and Resources
Department of Justice
Department of Labour
Department of Learning
Department of Northern Affairs
Public Service Commission
Saskatchewan Property Management Corporation
Saskatchewan Liquor and Gaming

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Main points

The Government created the Department in 2001 and expanded its responsibilities in 2002. The Department's second year of operation was 2002-03.

In this chapter, we cite examples where the Department's processes did not operate as expected. This resulted in errors in its accounting records. We identify the need for the Department to better document its administrative policies and procedures. Documented policies and procedures help staff carry out their duties appropriately and consistently.

Introduction

In this chapter, we provide a brief overview of the mandate and spending of the Department of Culture, Youth and Recreation. In addition, we set out the results of our audit of the Department and the agencies for which it is responsible for fiscal years ending up to May 31, 2003.

Understanding the Department

In 2001, the Government established the Department to support and enhance the culture, youth, and recreation sectors in Saskatchewan. In 2002, the Department assumed the responsibility for various heritage programs and the Saskatchewan Communications Network Corporation.

As set out in the Department's 2002-03 Annual Report, the Department's vision is that "all Saskatchewan people are engaged in the ongoing success of the province."

The Department's web site contains its annual reports, other key publications, and further information about its programs. It is located at <http://www.cyr.gov.sk.ca>.

Special purpose funds and agencies

At March 31, 2003, the Department was responsible for the following special purpose funds and agencies:

	<u>Year-End</u>
Community Initiatives Fund	March 31
Doukhobors of Canada C.C.U.B Trust Fund Board	May 31
Saskatchewan Archives Board	March 31
Saskatchewan Arts Board	March 31
Saskatchewan Centre of the Arts	March 31
Saskatchewan Communications Network Corporation	March 31
Saskatchewan Heritage Foundation	March 31
Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation	March 31
Western Development Museum	March 31

Each special purpose fund and Crown agency gives its financial statements and/or annual reports to the Legislative Assembly each year.

Overview of Department spending

For the year ended March 31, 2003, the Department spent \$44.9 million including \$4.9 million for film employment tax credits. It had revenues of \$11.6 million from lottery licence fees from the Saskatchewan Lottery Trust Fund for Sport, Culture and Recreation.

The following is a list of major programs and spending reported by the Department.

	Estimates ¹	Actual ²
	<u>2002-03</u>	<u>2002-03</u>
	(in millions of dollars)	
Culture and Recreation	\$ 14.1	\$ 14.9
Heritage and Tourism Facilities	9.5	9.4
Saskatchewan Communications Network	7.4	7.4
Community Initiatives Fund	5.9	5.9
Youth	4.1	3.9
Accommodation and Central Services	1.0	1.1
Infrastructure projects	0.0	1.3
Administration	<u>0.8</u>	<u>1.0</u>
	<u>\$ 42.9</u>	<u>\$ 44.9</u>

Audit conclusions and findings

In our opinion for the fiscal years ending up to May 31, 2003:

- ♦ the 2003 financial statements for the funds and agencies listed above are reliable;
- ♦ the Department and its agencies had adequate rules and procedures to safeguard public resources and comply with authorities governing their activities, except for the matters reported in this chapter; and
- ♦ the Department and its agencies complied with authorities governing their activities relating to financial reporting,

¹ Saskatchewan Finance, *Saskatchewan Estimates 2002-03*

² Actual per Public Accounts of \$44.9 million include \$1.3 million for capital projects paid from the Centenary Fund.

safeguarding public resources, revenue raising, spending, borrowing, and investing.

Cabinet has appointed Virtus Group Chartered Accountants & Business Advisors LLP as the appointed auditor of the Community Initiatives Fund, the Saskatchewan Communications Network Corporation, and the Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation. To carry out each audit and form the above opinions related to each, we worked with Virtus Group. We used the framework recommended by *The Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our web site at <http://www.auditor.sk.ca/rrd.html>).

Findings

Improvements to written rules and procedures needed

The Department needs better written rules and procedures to ensure it records transactions properly and promptly.

Proper rules and procedures reduce the risk of breakdowns in control. They help ensure management receive timely, complete, and accurate financial information for use in decision making. They help staff to carry out the procedures appropriately and consistently. Written rules and procedures are essential to ensure smooth transitions when staff changes.

Proper rules and procedures:

- ♦ set out the basis for recording financial transactions,
- ♦ describe the nature and types of information necessary to record and monitor activities unique to the agency,
- ♦ set out required timing of receipt and processing of key information,
- ♦ describe steps to take when key information is not received or processed as required, and

- ◆ clearly assign responsibility for the completion and monitoring of each procedure.

The Department uses the Financial Administration Manual (FAM) as its primary source of administrative policies and procedures. However, the Department does not have clear written administrative policies and procedures to provide its staff with sufficient guidance on activities unique to its operations.

This lack of clear policies and procedures resulted in the Department not recording transactions consistently or accurately. For example, during the year, the Department:

- ◆ did not update its financial records from April to September 2002 to reflect the actual amounts of film tax credits issued (\$3.9 million), or ensure actual amounts from April to December 2002 reflected in its monthly forecast agreed to its accounting records for the same period. This increased the risk of inaccurate monthly financial information.
 - ◆ did not collect the necessary information to estimate and record properly the amount of revenues not yet received throughout the year and at year-end. This resulted in the Department understating its revenues of \$11.8 million by \$0.9 million.
 - ◆ did not consistently follow the expected accounting policy when recording grants. It incorrectly recorded a \$950,000 payment as a grant expenditure. This resulted in the Department overstating its expenditures and understating its prepaid expenses by \$0.95 million. In 2001-02, The Department correctly accounted for a similar payment to the same recipient.
1. We recommend that the Department document better its administrative policies and procedures to ensure it records transactions properly and promptly.

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Main points

In this chapter, we report that the Saskatchewan Property Management Corporation (SPMC) has made progress in developing a disaster recovery plan. Many government agencies rely on the continuity of SPMC's operations to deliver their services. A disaster recovery plan would help to ensure the continuity of SPMC's operations in the event of a disaster.

In addition, SPMC provides government agencies with accommodation and transportation services. To provide these services, it uses key infrastructure consisting of buildings, vehicles, and aircraft. Legislators and the public need information to know whether SPMC is properly managing its infrastructure. In this chapter, we note SPMC needs to improve the information it makes public about its infrastructure.

Introduction

The Saskatchewan Property Management Corporation (SPMC) operates under the authority of *The Saskatchewan Property Management Corporation Act*. SPMC provides accommodation and commercial services to government agencies as well as to other levels of government and various non-government agencies.

SPMC's 2003 financial statements show SPMC had revenues of \$220 million, net income of \$4.5 million, and held assets of \$444 million at March 31, 2003.

Our audit conclusions and findings

Our Office worked with Deloitte & Touche LLP, the appointed auditor for SPMC, using the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our web site at <http://www.auditor.sk.ca/rrd.html>). The appointed auditor and our Office formed the following opinions.

In our opinion, for the year ended March 31, 2003:

- ♦ SPMC's financial statements are reliable;
- ♦ SPMC had adequate rules and procedures to safeguard public resources except that SPMC needs a disaster recovery plan; and
- ♦ SPMC complied with the authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

We also report another matter for the attention of the Legislative Assembly.

Disaster recovery plan needed

SPMC needs a disaster recovery plan.

SPMC relies on a number of computer systems to deliver its services to customers and to manage its financial affairs. Also, SPMC's customers rely on the continuity of SPMC's operations so that they can deliver their services. As a result, it is important that SPMC's computer systems are available to ensure the continuity of SPMC's operations.

SPMC safeguards its data in various ways, but does not have a written and tested plan to minimize the impact of a disaster on it or its customers. Such plans are typically known as disaster recovery plans. During 2002-2003, SPMC made good progress in developing a disaster recovery plan but by March 31, 2003 had not tested or approved the plan.

In our 2002 Fall Report – Volume 2, we recommended that SPMC approve a written and tested disaster recovery plan. In May 2003, the Standing Committee on Public Accounts agreed with our recommendation. We continue to recommend that SPMC approve a written and tested disaster recovery plan.

Reporting on infrastructure

In chapter 12 of this Report, we set out the results of our assessment of the adequacy of information made public by SPMC about its infrastructure in 2002 and in the first seven months of 2003. In that chapter, we recommend that SPMC provide the public with additional information:

- ♦ about the capacity of its facilities and vehicles including their current condition and potential volume of service; and
- ♦ about the extent to which the use of its key infrastructure (i.e., facilities, vehicles, and aircraft) achieved its operational and financial plans, and explain significant differences between actual and planned results.

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Main points

This chapter describes the key risks that the Department of Highways and Transportation (Highways) must manage well to be successful. Highways must:

- ◆ adapt to changing demands placed on the transportation system;
- ◆ identify and balance the transportation needs of Saskatchewan residents;
- ◆ operate and preserve the transportation infrastructure system; and
- ◆ obtain sufficient resources and effectively manage the use of these resources to meet Saskatchewan's long-term transportation needs.

We did this work to help Members of the Legislative Assembly and the public understand and assess the key risks facing Highways. We encourage Highways to report on those risks and its strategies to manage them.

This chapter also includes the results of our audit of Highways for the year ended March 31, 2003. We concluded that Highways had adequate processes to safeguard public resources, complied with authorities governing its activities, and prepared reliable financial statements for its special purpose funds.

Introduction

The Department of Highways and Transportation (Highways) operates, maintains, and regulates the provincial transportation infrastructure. This infrastructure includes 26,250 km of highways, more than 800 bridges, 18 airports in northern Saskatchewan, 12 ferries, and a barge on Wollaston Lake. This infrastructure has a book value of about \$1.3 billion. The estimated replacement cost is about \$6 billion.

Highways also provides analysis and advice to the Government on federal transportation policy.

Highways' activities are in four main areas:

- ♦ operating the transportation system;
- ♦ preserving the transportation system;
- ♦ constructing the transportation system; and
- ♦ developing transportation policy and planning.

For the year ended March 31, 2003, the Government's summary financial statements show transportation expenditures of \$328 million as follows:

	(in millions)
Department of Highways and Transportation (2002-03 <i>Public Accounts Volume 1</i>)	\$ 294
Add: Centenary Fund expenditure on transportation	3
Expenditures by other Crown agencies on transportation	31
Transportation expenditures per the Government's summary financial statements	\$ 328

The following table shows Highways' major programs and spending for the year ended March 31, 2003. This information is included in the *Public Accounts 2002-03: Volume 2: Details of Revenue and Expenditure* (to view a copy of this report see <http://www.gov.sk.ca/finance/paccts>).

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Preservation of the transportation system	\$ 133	\$ 135
Construction of the transportation system	84	81
Operation of the transportation system	59	61
Administration	14	14
Transportation Policy	2	2
Airports	2	1
	<u>\$ 294</u>	<u>\$ 294</u>

Highways is responsible for two special purpose funds, the Highways Revolving Fund and the Transportation Partnerships Fund.

Key Risks

It is important that the Members of the Legislative Assembly (MLAs) and the public know the key risks facing a government department. Also, they should receive information on these risks to understand and assess a department's performance. We think sharing our understanding of the key risks will help the MLAs and the public better understand and assess a department's performance.

We identified the key risks Highways must manage well to be successful. It must:

- ♦ adapt to changing demands placed on the transportation system;
- ♦ identify and balance the transportation needs of Saskatchewan residents;
- ♦ operate and preserve the transportation infrastructure system; and
- ♦ obtain sufficient resources and effectively manage the use of these resources to meet Saskatchewan's long-term transportation needs.

We identified the key risks through discussions with management and reviewing Highways' web site and annual report. Management confirmed these are the key risks facing Highways. We have not audited the systems and practices Highways uses to manage its key risks.

Adapt to changing demands placed on the transportation system

There are many demands and challenges facing Saskatchewan transportation including:

- ♦ branch line abandonment and elevator consolidation;
- ♦ shift of grain haul from rail to trucking;
- ♦ oil industry expansion;
- ♦ economic diversification;
- ♦ increasing truck traffic;
- ♦ infrastructure sustainability;
- ♦ development of trade corridors and increasing north-south trade;
- ♦ harmonization and standardization of weight and dimension regulations; and
- ♦ skills shortages.

Highways has to ensure it is aware of the changing transportation demands and responds to these demands. Most of these changes are beyond its control. However, Highways needs to manage the transportation network and regulatory framework to accommodate changing demands so that the transportation system is not a barrier to the province's economic growth and social development.

Identify and balance the transportation needs of Saskatchewan residents

To know what balance of services to provide, Highways has to know the public's long-term transportation needs. Highways faces competing demands including preserving an aging infrastructure, upgrading roads to support economic growth, ensuring the safe movement of people and goods, and providing basic access in remote areas.

To assess future needs, Highways requires information on long-term trends for the province's economic development and changes in population demographics. These changes include an aging population and rural to urban migration.

Operate and preserve the transportation infrastructure system

Operating the transportation system is the first priority in allocating resources. This involves the delivery of a wide range of services like pavement marking, mowing, signing, lighting, as well as snow and ice control to ensure the safe, orderly, and efficient movement of people and goods.

Failure to preserve the transportation system will result in serious system deterioration. Restoration costs after such deterioration are greater than preventative maintenance costs. Regular maintenance reduces the long-term costs, while sustaining the quality of the system.

Obtain sufficient resources and effectively manage the use of these resources to meet Saskatchewan's long-term transportation needs

Highways must identify the resources it requires to carry out its long-term plan. Highways must also set priorities to maximize benefits from the transportation system.

Highways should have adequate processes to monitor its human resource requirements. Highways, along with the rest of government, is faced with problems related to an aging workforce. Many specialists will be retiring within the next ten years. When these experienced employees leave, Highways may lack qualified staff to replace them. Highways needs processes to ensure it has the right people with the right skills in the right place at the right time.

Budget allocations can never satisfy all the demands on the highway system, so it is important to identify and address the essential needs. Highways allocates resources to operate, preserve, and improve the transportation system in this relative order of priority. The amount of investment in these areas requires trade-offs between safety, sustainability, support for economic growth, and social development.

Our audit conclusions

This chapter reports our audit conclusions on Highways and its special purpose funds for the fiscal year ended March 31, 2003.

In our opinion:

- ♦ the financial statements for the Highways Revolving Fund and the Transportation Partnerships Fund are reliable;
- ♦ Highways and its special purpose funds had adequate rules and procedures to safeguard public resources; and
- ♦ Highways and its special purpose funds complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

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Main points

This chapter describes our audit conclusions and findings for the Board of Internal Economy for the year ended March 31, 2003. For the most part, the Board is well managed and complying with the law. However, the Board needs to make further improvements in two areas.

First, the Board needs to approve the plans and reports it uses to make decisions. The Board needs to ensure that the reports it receives provide the information it needs to assess performance.

Second, the Board needs to prepare an annual report on its operations. An annual report is a necessary accountability document for all public sector agencies.

Introduction

The Board of Internal Economy assists Members of the Legislative Assembly (MLAs) to perform their duties. It provides funding and support services to MLAs, the Legislative Assembly, and its committees. It also informs the public of the Legislature's activities. The Board provides administrative services for the Offices of the Ombudsman, Children's Advocate, Information and Privacy Commissioner, and Conflict of Interest Commissioner.

In 2002-03, the Board received \$17.5 million from the General Revenue Fund and spent this money on its programs. Information about the Board's expenditures appears in the *Public Accounts 2002-03: Volume 2: Details of Revenue and Expenditure* (to view a copy of this report, see <http://www.gov.sk.ca/finance/paccts>).

The following is a list of programs and spending:

	<u>Original Estimates</u>		<u>Actual</u>	
	(in millions of dollars)			
Payments and Allowances to MLAs	\$	10.3	\$	10.1
Legislative Assembly Services		3.7		3.8
Administration		2.0		2.0
Caucus Operations		1.4		1.4
Other		0.3		0.2
	\$	<u>17.7</u>	\$	<u>17.5</u>

Key risks the Board faces

The Board plays a key role in helping MLAs perform their important duties. How MLAs carry out their duties influences the quality and effectiveness of the Government and the public's confidence in our parliamentary system of government. Duties of MLAs include:

- ◆ making the laws that govern people and the Executive Government;
- ◆ holding the Executive Government accountable for how it carries out its activities; and

- ♦ representing their constituencies in the Legislative Assembly.

In assisting MLAs to carry out their important duties, the Board faces many risks. The Board needs to manage the following four key risks:

- ♦ to ensure the Legislative Assembly and its committees can function effectively;
- ♦ to ensure MLAs can access from the Board appropriate resources, information, and advice to enable them to effectively carry out their duties in the Legislative Assembly;
- ♦ to ensure MLAs can access appropriate resources from the Board to carry out their activities in their constituencies and are accountable for the use of those resources; and
- ♦ to ensure the public can assess whether the work of the Legislative Assembly and MLAs is relevant and done well.

For additional discussion of these key risks and the Board's strategies to manage them, see our 1999 Fall Report – Volume 2.

Our audit conclusions and findings

In our opinion for the year ended March 31, 2003:

- ♦ the Board had adequate rules and procedures to safeguard public resources except for the need for better plans and reports; and
- ♦ the Board complied with the authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

Better plans and reports required

The Board needs to approve the plans and reports it uses to make decisions.

The Board's plans should set out its operational goals, objectives, and the performance targets needed to monitor its progress. The reports the Board receives should show the Board's progress in achieving its plans. This information would also provide a sound basis for preparing an annual report.

Management has prepared a strategic plan. The plan has not been approved by the Board. Once approved, management should then give the Board regular reports that show progress towards its goals and objectives.

The Board receives quarterly financial reports that compare planned results to actual results with forecasts to the end of the year. These reports also included explanations of differences.

However, the Board does not receive operational reports that show the effectiveness of the Board's programs and services (i.e., what results the Board expects and how it is progressing towards those expectations).

We also reported this matter in previous years.

1. We continue to recommend that the Board:

- ♦ set and approve its operational goals and objectives; and
- ♦ set performance targets and measures and monitor its progress in achieving its goals and objectives.

Annual report needed

The Board does not prepare an annual report on its performance for the Legislative Assembly.

The Legislative Assembly and Executive Council Act does not require the Board to prepare an annual report. However, almost all government agencies provide the Legislative Assembly with an annual report. In addition, the Standing Committee on Public Accounts recommended that all departments provide timely annual reports on their activities.

To assess performance of public sector agencies, Members of the Legislative Assembly and the public need to know how the agency is managing its key risks. They also need to receive information about the agency's goals and objectives, and how successful the agency has been in achieving those goals and objectives. Annual reports can provide this information.

To be good accountability documents, annual reports should also describe what the agency is all about, how it manages its key risks, what it has done, where it is now, and what it plans to do. In addition, to ensure that the information in the report is relevant and understandable, the annual report should be written clearly and be available promptly after the agency's year-end.

As we noted earlier, the Board also needs to improve its internal reports. These reports would provide a sound basis for the preparation of an annual report.

The Board plays a key role in fostering public confidence in our parliamentary system of government. An annual report would contribute to public confidence.

We also reported this matter in previous years.

- 2. We continue to recommend that the Board prepare an annual report on its performance and provide the report to the Legislative Assembly.**

NOTE:

All persons making use of this consolidation are reminded that it has no legislative sanction, that the amendments have been embodied only for convenience of reference and that the original statutes and regulations should be consulted for all purposes of interpretation and application of the law. Please note, however, that in order to preserve the integrity of the original statutes and regulations, errors that may have appeared are reproduced in this consolidation.

The Provincial Auditor Act

SHORT TITLE AND INTERPRETATION

Short Title

- 1 This Act may be cited as *The Provincial Auditor Act*.

Interpretation

- 2 In this Act:

- (a) **“acting provincial auditor”** means the acting provincial auditor appointed pursuant to section 5;
- (a.1) **“appointed auditor”** means an auditor appointed pursuant to an Act or other authority by the Lieutenant Governor in Council or another body to examine the accounts of a Crown agency or Crown-controlled corporation or accounts otherwise related to public money;
- (b) **“audit”** means an audit or examination of accounts of public money that may be made by the provincial auditor pursuant to this Act;
- (c) **“Crown”** means Her Majesty the Queen in right of Saskatchewan;
- (d) **“Crown agency”** means an association, board, commission, corporation, council, foundation, institution, organization or other body, whether incorporated or unincorporated, all the members of which or all of the board of management or board of directors of which:
- (i) are appointed by an Act or by the Lieutenant Governor in Council; or
 - (ii) are, in the discharge of their duties, public officers or servants of the Crown;

and includes a corporation that has at least 90% of its issued and outstanding voting shares vested in the Crown;

(e) **“Crown-controlled corporation”** means a corporation that is not a Crown agency and that has less than 90% and more than 50% of its issued and outstanding voting shares vested in the Crown;

(f) **“fiscal year”** means the period commencing on April 1 in one year and ending on March 31 in the next year;

(g) **“provincial auditor”** means the Provincial Auditor for Saskatchewan appointed pursuant to section 3.1;

(g.1) **“public accounts committee”** means the Standing Committee of the Legislative Assembly on Public Accounts;

(h) **“public money”** means all revenues and public moneys from whatever source arising, whether the revenues and moneys:

(i) belong to the Government of Saskatchewan; or

(ii) are collected or held by officers of the departments of the Government of Saskatchewan or Crown agencies for, on account of or in trust for the Government of Canada or the government of any other province or for any other party or person;

and includes public property;

(i) **“public property”** means property held or administered by the Crown;

(j) **“Speaker”** means the member of the Legislative Assembly elected as Speaker in accordance with *The Legislative Assembly and Executive Council Act*.

1983, c.P-30.01, s.2; 1986-87-88, c.26, s.4;
2001, c.32, s.3.

APPOINTMENT AND OFFICE

Provincial Auditor for Saskatchewan

3(1) The office of Provincial Auditor for Saskatchewan is established.

(2) The provincial auditor is an officer of the Legislative Assembly.

2001, c.32, s.4.

Appointment of provincial auditor

3.1(1) On the unanimous recommendation of the public accounts committee, the Legislative Assembly shall, by resolution, appoint a provincial auditor.

(2) The provincial auditor holds office for a term of 10 years from the date of his or her appointment unless, before that term expires, he or she:

- (a) resigns or is suspended or removed from office pursuant to section 3.2; or
 - (b) attains the normal date of retirement for employees of the public service of Saskatchewan.
- (3) The provincial auditor may apply for a second or subsequent term.
2001, c.32, s.4.

Resignation, removal of provincial auditor

3.2(1) The provincial auditor may resign the office at any time by giving written notice:

- (a) to the Speaker; or
 - (b) if there is no Speaker or if the Speaker is absent from Saskatchewan, to the President of the Executive Council.
- (2) The Legislative Assembly may, by resolution, suspend or remove the provincial auditor from office for cause.

2001, c.32, s.4.

Salary of the provincial auditor

4(1) Subject to subsections (2) and (3), the provincial auditor is to be paid a salary equal to the average salary of all the deputy ministers and acting deputy ministers of the Government of Saskatchewan calculated as at April 1 in each year.

(2) Any benefits or payments that may be characterized as deferred income, retirement allowances, separation allowances, severance allowances or payments in lieu of notice are not to be included in calculating the average salary of all the deputy ministers and acting deputy ministers pursuant to subsection (1).

(3) Where, as a result of a calculation made pursuant to subsection (1), the salary of a provincial auditor would be less than that provincial auditor's previous salary, the provincial auditor is to be paid not less than his or her previous salary.

(4) The provincial auditor is entitled to receive any privileges of office and economic adjustments that are provided generally to deputy ministers.

(5) The salary of the provincial auditor shall be paid out of the general revenue fund.

2001, c.32, s.5.

Acting provincial auditor

5(1) The provincial auditor may appoint an employee of his office as acting provincial auditor.

(2) Where the position of provincial auditor is vacant and there is no acting provincial auditor, the Lieutenant Governor in Council may appoint a person as acting provincial auditor who is to hold office until an acting provincial auditor is appointed pursuant to subsection (1).

Appendix 1

(3) Where the position of provincial auditor is vacant or the provincial auditor is absent or unable to perform his duties due to illness or other disability, the acting provincial auditor has all the powers and shall exercise all the duties of the provincial auditor.

1983, c.P-30.01, s.5.

Qualifications of provincial auditor, acting provincial auditor

6 No person is eligible to be appointed as provincial auditor or as acting provincial auditor unless he is a member in good standing of the Institute of Chartered Accountants of Saskatchewan.

1983, c.P-30.01, s.6.

Advisors, etc.

7 For the purposes of exercising any of the powers or carrying out any of the duties imposed upon him by this Act, the provincial auditor may engage the services of or retain any technical, professional or other advisers, specialists or consultants that he considers necessary.

1983, c.P-30.01, s.7; 2001, c.32, s.6.

Office of the provincial auditor

8(1) The provincial auditor may employ any persons that he considers necessary to assist him in carrying out his duties and fulfilling his responsibilities under this Act.

(2) Employees of the provincial auditor's office are employees of the Legislative Assembly and are not members of the public service of Saskatchewan.

(3) The employee benefits applicable to the public servants of Saskatchewan apply or continue to apply, as the case may be, to the provincial auditor and the employees of the provincial auditor's office.

(4) *The Public Service Superannuation Act, The Superannuation (Supplementary Provisions) Act and The Public Employees Pension Plan Act* apply to the provincial auditor and the employees of the provincial auditor's office, and all credits in any superannuation plan or fund established pursuant to those Acts for the provincial auditor and the employees of the provincial auditor's office and accumulated under those Acts, before the coming into force of this section, are preserved and continued in accordance with those Acts.

(5) The provincial auditor shall administer, manage and control the provincial auditor's office and the general business of the office and shall oversee and direct the staff of the office.

1983, c.P-30.01, s.8; 2001, c.32, s.7.

Confidentiality

9 The provincial auditor shall require every person employed in his or her office, and any person engaged or retained pursuant to section 7, who is to examine the accounts of a department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department, Crown agency or Crown-controlled corporation.

1983, c.P-30.01, s.9; 2001, c.32, s.8.

Delegation of authority

10 The provincial auditor may delegate to any member of the provincial auditor's office the authority to exercise any power or to perform any duty conferred on the provincial auditor pursuant to this Act, other than the duty to make:

- (a) an annual report on operations pursuant to section 10.4;
- (b) a business and financial plan pursuant to section 10.5;
- (c) an annual report pursuant to section 12; or
- (d) a special report to the Legislative Assembly.

2001, c.32, s.9.

Estimates

10.1(1) For each fiscal year, the provincial auditor shall present to the public accounts committee, in accordance with any instructions from the public accounts committee, estimates of the moneys that will be required to be provided by the Legislature for the expenses of the provincial auditor's office, including an amount for unforeseen expenses.

(2) On receipt of the estimates pursuant to subsection (1), the public accounts committee:

- (a) shall review the estimates; and
- (b) may make any alterations to the estimates that the public accounts committee considers appropriate.

(3) After reviewing and making any alterations to the estimates pursuant to subsection (2), the public accounts committee shall approve the estimates.

(4) After approving the estimates pursuant to subsection (3), the chairperson of the public accounts committee shall submit the estimates to the Speaker and to the Board of Internal Economy.

(5) The Speaker shall cause the estimates submitted pursuant to subsection (4) to be laid before the Legislative Assembly.

(6) Notwithstanding subsections (1) to (5), if a public accounts committee has not been appointed by a date to allow the Speaker to cause the estimates of the provincial auditor for a fiscal year to be laid before the Legislative Assembly pursuant to subsections (1) to (5), the Speaker shall cause the estimates of the provincial auditor for the previous fiscal year to be laid before the Legislative Assembly.

(7) The Legislative Assembly may refer the estimates laid before it pursuant to subsection (5) or (6) to a Standing Committee of the Legislative Assembly.

(8) Where the estimates are not referred to a Standing Committee of the Legislative Assembly, the estimates are to be considered in the Committee of Finance and defended by a member of the Executive Council who is designated by the President of the Executive Council.

- (9) *The Tabling of Documents Act, 1991* does not apply to the estimates required to be prepared by the provincial auditor pursuant to this section.

2001, c.32, s.9.

Unprovided for or unforeseen expenses

10.2(1) For the purposes of this section, the Legislature is not in session where it:

- (a) is prorogued; or
- (b) is adjourned for an indefinite period or to a day more than seven days after the Lieutenant Governor in Council made the order directing the preparation of the special warrant pursuant to this section.

(2) If the Legislature is not in session, the provincial auditor may report to the public accounts committee that:

(a) a matter has arisen with respect to the administration of this Act respecting an expense required by the provincial auditor's office that was not foreseen or provided for, or was insufficiently provided for; and

(b) the provincial auditor is of the opinion that there is no appropriation for the expense or that the appropriation is exhausted or insufficient and that the expense is urgently and immediately required for the public good.

(3) On receipt of a report of the provincial auditor pursuant to subsection (2), the public accounts committee:

(a) shall review the report and make any alterations to the funding request in the report that the public accounts committee considers appropriate; and

(b) may recommend to the Minister of Finance that a special warrant be issued authorizing the expense in the amount the public accounts committee determines to be appropriate.

(4) On receipt of a recommendation of the public accounts committee pursuant to subsection (3), the Minister of Finance shall recommend to the Lieutenant Governor in Council that a special warrant be issued authorizing the expense in the amount recommended by the public accounts committee.

(5) On receipt of a recommendation of the Minister of Finance pursuant to subsection (4), the Lieutenant Governor in Council may order a special warrant to be prepared for the signature of the Lieutenant Governor authorizing the expense in the amount recommended by the public accounts committee.

(6) For the purposes of *The Financial Administration Act, 1993* and of this Act, a special warrant issued pursuant to subsections (1) to (5) is deemed to be a special warrant issued pursuant to section 14 of *The Financial Administration Act, 1993*, and that Act applies to a special warrant issued pursuant to those subsections as if it were issued pursuant to section 14 of that Act.

(7) Notwithstanding subsections (1) to (6), the provincial auditor may request that the Minister of Finance recommend that a special warrant be issued pursuant to section 14 of *The Financial Administration Act, 1993* if:

- (a) a public accounts committee has not been appointed; and
- (b) the provincial auditor reports that the conditions mentioned in clauses (2)(a) and (b) are met.

2001, c.32, s.9.

Expenses limited to appropriation

10.3(1) In this section, "appropriation" means:

- (a) an appropriation for the expenses of the provincial auditor's office made by an *Appropriation Act*;
- (b) an appropriation by special warrant issued pursuant to section 10.2; and
- (c) any other amount that is permitted or directed to be paid out of the general revenue fund pursuant to this or any other Act for the expenses of the provincial auditor's office.

(2) The provincial auditor shall not incur expenses for a fiscal year in excess of the appropriation for that fiscal year.

(3) The Minister of Finance shall pay to the provincial auditor out of the general revenue fund the appropriation for a fiscal year in the amounts and at the times requested by the provincial auditor.

(4) Where the amounts paid to the provincial auditor pursuant to subsection (3) on account of an appropriation for a fiscal year exceed the expenses of the provincial auditor's office for that fiscal year, the provincial auditor shall repay the excess to the Minister of Finance as soon as is practicable after the end of the fiscal year, and the Minister of Finance shall deposit any amounts received pursuant to this subsection in the general revenue fund.

2001, c.32, s.9.

Annual report on operations

10.4(1) In each fiscal year, the provincial auditor shall prepare and submit to the Speaker an annual report on operations that is to consist of the following:

- (a) a report on the operations of the provincial auditor's office for the preceding fiscal year;
- (b) the audited financial statement for the provincial auditor's office showing the results of its operations for the preceding fiscal year.

(2) The provincial auditor shall submit the annual report on operations mentioned in subsection (1) within 120 days after the end of the fiscal year to which the annual report on operations relates.

2001, c.32, s.9.

Business and financial plan

10.5 Prior to the beginning of each fiscal year, by a date that may be required by the public accounts committee, the provincial auditor shall prepare and submit to the Speaker a business and financial plan for the provincial auditor's office showing its planned operations and its planned revenues and expenses for the fiscal year

2001, c.32, s.9.

DUTIES AND POWERS

Examination of accounts

11(1) The provincial auditor is the auditor of the accounts of the government of Saskatchewan and shall examine all accounts related to public money and any accounts not related to public money that he is required by an Act to examine, and shall determine whether, in his opinion:

- (a) the accounts have been faithfully and properly kept;
- (b) public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- (c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

(2) An appointed auditor is subject to the examination responsibilities prescribed in clauses (1)(a) to (d).

(3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants.

1986-87-88, c.26, s.6.

Reliance on report of appointed auditor

11.1(1) In the fulfilment of his responsibilities as the auditor of the accounts of the Government of Saskatchewan, the provincial auditor may rely on the report of the appointed auditor of a Crown agency or Crown-controlled corporation if he is satisfied that the appointed auditor has carried out his responsibilities pursuant to section 11 with respect to that Crown agency or Crown-controlled corporation.

(2) The provincial auditor may only rely on the report of an appointed auditor of a Crown agency or the appointed auditor of a Crown-controlled corporation if the appointed auditor:

- (a) is a member in good standing of a recognized accounting profession that is regulated by an Act; and

- (b) is not employed by a department of the Government of Saskatchewan, a Crown agency, a Crown-controlled corporation or the provincial auditor's office.
- (3) Where the provincial auditor determines pursuant to subsection (1) or (2) that he or she is unable to rely on the report of the appointed auditor with respect to a Crown agency or Crown-controlled corporation, the provincial auditor shall conduct additional audit work with respect to the accounts of that Crown agency or Crown-controlled corporation.
- (4) Where the provincial auditor has conducted additional audit work on the accounts of a Crown agency or Crown-controlled corporation pursuant to subsection (3), the provincial auditor shall report in his or her annual report pursuant to this section:
 - (a) the reason that the provincial auditor was unable to rely on the report of the appointed auditor of the Crown agency or Crown-controlled corporation;
 - (b) the nature of the additional audit work the provincial auditor conducted; and
 - (c) the results of the additional audit work.

1986-87-88, c.26, s.6; 2001, c.32, s.10.

Annual Report

12(1) At the end of each fiscal year, the provincial auditor and every appointed auditor shall prepare a report on the results of all examinations that they have conducted of departments of the Government of Saskatchewan, Crown agencies and Crown-controlled corporations during that year giving details of any reservation of opinion made in an audit report, and shall identify any instances they consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly, including any cases in which they observe:

- (a) any officer or employee of a department of the Government of Saskatchewan or Crown agency has wilfully or negligently omitted to collect or receive any public money belonging to the Crown;
- (b) any public money was not duly accounted for and paid into the appropriate fund;
- (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;
- (d) an expenditure was made for which there was no authority or which was not properly vouchered or certified;
- (e) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person;
- (f) a special warrant authorized the payment of public money; or
- (g) essential records were not maintained or the rules and procedures applied were not sufficient:
 - (i) to safeguard and control public money;

(ii) to effectively check the assessment, collection and proper allocation of public money; or

(iii) to ensure that expenditures were made only as authorized.

(1.1) On completion of any examination of the accounts of a Crown agency or Crown-controlled corporation, an appointed auditor shall submit to the provincial auditor the report prepared pursuant to subsection (1) with respect to that Crown agency or Crown-controlled corporation.

(1.2) At the end of each fiscal year, the provincial auditor shall compile the reports submitted to him by appointed auditors pursuant to subsection (1.1) and shall submit them together with his report prepared pursuant to this section in the form of an annual report to the Legislative Assembly.

(2) In the annual return made pursuant to subsection (1), the provincial auditor may:

(a) report on the work of his office and on whether, in carrying on the work of his office, he received all the information, reports and explanations he required from departments of the Government of Saskatchewan, Crown agencies or Crown-controlled corporations or their auditors; and

(b) comment on the financial statements of any department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation of which he is the auditor.

(3) Notwithstanding subsection (1), neither the provincial auditor nor any appointed auditor is required to report to the Legislative Assembly on any matter that he considers immaterial or insignificant.

1983, c.P-30.01, s.12; 1986-87-88, c.26, s.7.

Special report

13 The provincial auditor may prepare a special report to the Legislative Assembly on any matter that is, in his opinion, important or urgent.

1983, c.P-30.01, s.13.

Submission of provincial auditor's reports

14 Notwithstanding *The Tabling of Documents Act, 1991*, the provincial auditor shall submit to the Speaker, as soon as is practicable:

(a) the annual report prepared pursuant to section 12; and

(b) any special report that is prepared by the provincial auditor pursuant to section 13.

2001, c.32, s.11.

Tabling of reports

14.1(1) In this section, "report" means:

(a) an annual report on the operations of the provincial auditor's office that is submitted to the Speaker pursuant to section 10.4;

- (b) a business and financial plan for the provincial auditor's office that is submitted to the Speaker pursuant to section 10.5;
 - (c) an annual report prepared pursuant to section 12 that is submitted to the Speaker pursuant to section 14;
 - (d) any special report that is prepared by the provincial auditor pursuant to section 13 that is submitted to the Speaker pursuant to section 14; or
 - (e) a report of the auditor of the accounts of the provincial auditor's office that is submitted to the Speaker pursuant to section 27.
- (2) The Speaker shall lay before the Legislative Assembly each report received by the Speaker as soon as is practicable after it is received.
- (3) If the Legislative Assembly is not in session when the Speaker receives a report, the Speaker shall submit the report to the Clerk of the Legislative Assembly.
- (4) When the Clerk of the Legislative Assembly receives a report pursuant to subsection (3), the Clerk shall, as soon as possible:
- (a) subject to subsection (5), cause a copy of the report to be delivered to each member of the Legislative Assembly; and
 - (b) make the report available for public inspection during normal business hours of the Clerk of the Legislative Assembly.
- (5) The requirement in subsection (4) to deliver a copy of a report to the members of the Legislative Assembly does not apply in the period that:
- (a) commences on the day a Legislative Assembly is dissolved; and
 - (b) ends on the day fixed for making the return to the writ for the general election held pursuant to *The Election Act, 1996* that follows the dissolution mentioned in clause (a).
- (6) If a report is submitted to the Clerk of the Legislative Assembly in accordance with subsection (3), the report is deemed to have been laid before the Assembly.
- (7) Where a report is laid before the Legislative Assembly pursuant to subsection (2) or is deemed to be laid before the Legislative Assembly pursuant to subsection (6), the report is deemed to be referred to the public accounts committee.
- (8) Notwithstanding subsection (7), where a report or part of a report mentioned in subsection (7) deals with a matter that relates to the Crown Investments Corporation of Saskatchewan or a subsidiary Crown corporation within the meaning of *The Crown Corporations Act, 1993*, the report or part of the report is deemed to be referred to the Standing Committee of the Legislative Assembly on Crown Corporations.

2001, c.32, s.11.

Certification of Statements

15(1) The provincial auditor or the appointed auditor, as the case may be, shall express an opinion, in accordance with the outcome of his examinations, on the financial statements of:

- (a) any funds that he is required to audit pursuant to subsection 11(1);
- (b) Crown agencies;
- (c) Crown-controlled corporations; and
- (d) accounts not related to public money that are, by an Act, required to be examined by him.

(2) Notwithstanding any other provision of this Act, the provincial auditor is not required to audit or report on the financial statements of a Crown agency or Crown-controlled corporation for which there is an appointed auditor.

1983, c.P-30.01, s.15; 1986-87-88, c.26, s.9.

Special assignments

16(1) Where:

- (a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:
 - (i) requests the provincial auditor to perform a special assignment; and
 - (ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and
- (b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor shall perform the special assignment.

(2) Notwithstanding *The Tabling of Documents Act*:

- (a) the provincial auditor shall submit to the Speaker, as soon as is practicable, the report of any special assignment prepared pursuant to subsection (1) on the request of the Legislative Assembly; and
- (b) the Speaker shall, as soon as is practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

(3) The provincial auditor shall submit to the Clerk of the Assembly a special report prepared pursuant to subsection (1) on the request of the Standing Committee of the Legislative Assembly on Public Accounts, and the clerk shall make the special report available to the members of that committee.

(4) Where:

- (a) the Lieutenant Governor in Council:

- (i) requests the provincial auditor to perform a special assignment; and
 - (ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and
- (b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor may perform the special assignment.

- (5) The provincial auditor shall submit, as soon as is practicable, a special report prepared pursuant to subsection (4) to the Lieutenant Governor in Council.

1983, c.P-30.01, s.16.

Improper retention of public money

17 Whenever, in the opinion of the provincial auditor or another auditor who is appointed to undertake an audit of Crown agencies or Crown-controlled corporations, any public money or revenues or money collected or held by employees of Crown-controlled corporations have been improperly retained by any person, the provincial auditor or the other auditor, as the case may be, shall immediately report the circumstances of that case to the member of the Executive Council who is responsible for the department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation and the Minister of Finance.

1983, c.P-30.01, s.17.

Cancelled securities

18 The provincial auditor shall:

- (a) cause to be examined debentures and other securities of the Government of Saskatchewan that have been redeemed;
- (b) assure himself or herself that the securities described in clause (a) have been properly cancelled;
- (c) at any time and to any extent that the Minister of Finance may require, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities; and
- (d) at any time that he or she is requested to do so by the Minister of Finance, participate in audit assignments in connection with the filing of a prospectus and registration material required for the issuance and sale of securities of the Government of Saskatchewan.

1983, c.P-30.01, s.18; 2001, c.32, s.12.

Attendance before Public Accounts Committee

19 On the request of the Standing Committee of the Legislative Assembly on Public Accounts, the provincial auditor and any member of his office shall attend meetings of that committee to assist that committee:

Appendix 1

(a) in planning the agenda for its review of the public accounts, the annual report of the provincial auditor, a special report prepared pursuant to section 13 or a report prepared pursuant to subsection 16(1) on the request of the committee; and

(b) during its review of the the items described in clause (a).

1983, c.P-30.01, s.19.

AUDIT COMMITTEE

Audit committee

20(1) In this section and in sections 21 to 23, "**audit committee**" means the audit committee established pursuant to subsection (2).

(2) An audit committee is established.

(3) The audit committee is to consist of not more than five persons appointed by the Speaker on the unanimous recommendation of the public accounts committee.

(4) A recommendation of the public accounts committee pursuant to subsection (3) is to be made only after the public accounts committee has consulted with the Standing Committee of the Legislative Assembly on Crown Corporations.

(5) The following persons are not eligible to be a member of the audit committee:

(a) a Member of the Legislative Assembly;

(b) an appointed auditor;

(c) an employee of the Government of Saskatchewan, of a Crown agency, of a Crown-controlled corporation or of the provincial auditor's office.

(6) The Speaker shall designate as chairperson the member of the audit committee unanimously recommended by the public accounts committee.

(7) The audit committee may determine its rules of procedure.

(8) All expenses of the audit committee are to be paid out of the appropriation for the Legislative Assembly Office.

2001, c.32, s.13.

Functions of the audit committee

21(1) The public accounts committee may request the audit committee to assist it in undertaking the following:

(a) the recommending of a provincial auditor;

(b) the review of the estimates of the provincial auditor;

(c) the review of the annual report on operations of the provincial auditor;

(d) the review of any report of the provincial auditor prepared pursuant to section 12 or 13;

(e) any other matters that the public accounts committee may request.

(2) The provincial auditor, the Minister of Finance, the member of the Executive Council responsible for *The Crown Corporations Act, 1993* or the Standing Committee of the Legislative Assembly on Crown Corporations may request the audit committee to review any matter that, in the opinion of the provincial auditor, the Minister of Finance, the member of the Executive Council responsible for *The Crown Corporations Act, 1993* or the Standing Committee of the Legislative Assembly on Crown Corporations, as the case may be, should be considered by the audit committee.

2001, c.32, s.13.

Information to be provided to audit committee

22(1) The audit committee may request the provincial auditor and any officers or employees of the Government of Saskatchewan, a Crown agency or a Crown-controlled corporation to provide the audit committee with any information that the audit committee considers necessary to carry out its functions mentioned in section 21, and the provincial auditor and the officers or employees of the Government of Saskatchewan, the Crown agency or the Crown-controlled corporation may provide the information requested.

(2) The audit committee and each member of the audit committee:

(a) shall preserve secrecy with respect to all matters that come to their knowledge in the course of performing their functions pursuant to this Act; and

(b) shall not communicate those matters to any person, other than when required to do so in the performance of their functions pursuant to this Act.

2001, c.32, s.13.

Availability of reports

23(1) For the purpose of allowing the Minister of Finance to review and comment on the provincial auditor's annual report prepared pursuant to section 12, the provincial auditor shall submit the provincial auditor's annual report to the Minister of Finance at least 10 days before the provincial auditor causes the annual report to be printed for submission to the Speaker.

(2) The provincial auditor shall submit to the Minister of Finance any special report prepared pursuant to section 13 before the provincial auditor submits that special report to the Speaker.

2001, c.32, s.13.

GENERAL

Right to information, accommodation

24(1) The provincial auditor or the appointed auditor, as the case may be, is entitled:

(a) to free access, at all convenient times, to:

(i) all electronic data processing equipment and programs and documentation related to the electronic data processing equipment; and

(ii) all files, documents and other records relating to the accounts;

of every department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person that he is required to examine or audit or, in the case of the provincial auditor, with respect to which he is examining pursuant to a special assignment; and

(b) to require and receive from employees of a department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person subject to examination or audit by him any information, reports and explanations that he considers necessary for the proper performance of his duties.

(2) The provincial auditor or an appointed auditor, as the case may be, may station in any department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or with any other person subject to examination or audit by him any employee of his office or advisor, specialist or consultant to enable him more effectively to carry out his duties, and the department, Crown agency, Crown-controlled corporation or other person subject to examination or audit shall provide the necessary office accommodation for the employee, advisor, specialist or consultant person so stationed.

1983, c.P-30.01, s.24; 1986-87-88, c.26, s.10.

Inquiries

25 The provincial auditor may examine any person on any matter relating to any account that is subject to an examination or audit by him, and, for the purposes of that examination, he may exercise all the powers of commissioners under *The Public Inquiries Act*.

1983, c.P-30.01, s.25.

Working papers

26 Neither the provincial auditor nor any appointed auditor is required to lay any audit working papers of his office before the Legislative Assembly or any committee of the Legislature.

1983, c.P-30.01, s.26; 1986-87-88, c.26, s.11.

Change in auditor

26.1 Where the auditor of a Crown agency or Crown-controlled corporation has been changed, the new auditor and the previous auditor shall deal with the transition in accordance with the rules of professional conduct as established from time to time by the Institute of Chartered Accountants of Saskatchewan.

1986-87-88, c.26, s.12.

Auditor of accounts of provincial auditor's office

27(1) On the recommendation of the public accounts committee, the Lieutenant Governor in Council shall appoint an accountant who meets the qualifications set out in subsection (2) to annually audit the accounts of the provincial auditor's office.

(2) For the purposes of subsection (1), the accountant appointed pursuant to this section:

- (a) must be a member in good standing of a recognized accounting profession that is regulated by an Act; and
- (b) must not be employed by a department of the Government of Saskatchewan, a Crown agency, a Crown-controlled corporation or the provincial auditor's office.
- (3) The accountant appointed pursuant to subsection (1) has the same powers and shall perform the same duties in relation to an audit of the accounts of the provincial auditor's office that the provincial auditor has or performs in relation to an audit performed pursuant to this Act.
- (4) The auditor of the accounts of the provincial auditor's office shall submit his or her report to the Speaker.

2001, c.32, s.14.

Fees

28(1) The provincial auditor may charge a reasonable fee for professional services provided by provincial auditor's office.

(2) All fees charged pursuant to subsection (1) and all other revenues received by the provincial auditor pursuant to this Act shall be deposited in the general revenue fund.

1983, c.P-30.01, s.28; 2001, c.32, s.15.

Limitation of liability

29 The provincial auditor, the employees in the provincial auditor's office and any adviser, specialist or consultant engaged or retained pursuant to section 7 are not liable in any action for any act done or not done or on any statement made by them in good faith in connection with any matter they are authorized or required to do under this Act.

1983, c.P-30.01, s.29; 2001, c.32, s.16.

Information confidential

30 The provincial auditor, any employee in the provincial auditor's office, an appointed auditor, any employee of an appointed auditor or any adviser, specialist or consultant engaged or retained pursuant to section 7:

- (a) shall preserve secrecy with respect to all matters that come to his or her knowledge in the course of his or her employment or duties under this Act; and
- (b) shall not communicate those matters to any person, other than when he or she is required to do so in connection with:
 - (i) the administration of this Act;
 - (ii) any proceedings under this Act; or
 - (iii) any proceedings in a court of law.

1983, c.P-30.01, s.30; 1986-87-88, c.26, s.13; 2001, c.32, s.17.

31 Repealed. 2001, c.32, s.18.

Transitional

32(1) The person appointed on the day before the coming into force of this section as provincial auditor pursuant to *The Department of Financial Act*, as that Act existed on the day before the coming into force of this Act, is deemed to be appointed as provincial auditor pursuant to this Act.

(2) On the day this section comes into force, the members of the public service who are employed in the office of the provincial auditor cease to be employed in the public service and each such person becomes an employee of the office of the provincial auditor at a salary of not less than that he was receiving on the day before the day this section comes into force.

1983, c.P-30.01, s.32.

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List and status of agencies subject to an examination under *The Provincial Auditor Act*

Appendix 2 lists the departments, Crown agencies, Crown-controlled corporations, special purpose and trust funds, offices of the Legislative Assembly, and other agencies subject to an audit examination under *The Provincial Auditor Act* at June 30, 2003.

This Appendix includes the status of those audits at October 31, 2003. The Appendix also indicates whether we have significant issues to report and where the issues are reported.

Our goal is to report the results of our audits of agencies with March fiscal year-ends in the fall and agencies with December fiscal year-ends in the spring. We have not completed the audits at some agencies. In most cases, the audits have been delayed. However, in a few cases, we have not been given access to the necessary information to complete the audits. To ensure that we provide the Legislative Assembly and the public with timely reports, we do not delay our reports to accommodate delayed audits, but rather include their results in future reports.

Agency	Year end on or before June 30, 2003	Status at October 31, 2003 ¹	Significant issues reported ²
Government of Saskatchewan – Summary Financial Statements	March 31	Complete	Yes/2003 Rpt V2
Departments and Secretariats:			
Department of Agriculture, Food and Rural Revitalization	March 31	Complete	Yes/2003 Rpt V3
Department of Corrections and Public Safety	March 31,	Complete	No
Department of Culture, Youth and Recreation	March 31	Complete	Yes/2003 Rpt V3
Department of Industry and Resources (formerly Department of Energy and Mines)	March 31	Complete	Yes/Note 4
Department of Environment	March 31	Complete	Yes/2003 Rpt V3
Department of Finance	March 31	Complete	Yes/2003 Rpt V1, V2, and V3
Department of Government Relations and Aboriginal Affairs	March 31	Complete	Yes/2003 Rpt V3
Department of Health	March 31	Complete	Yes/2003 Rpt V3
Department of Highways and Transportation	March 31	Complete	Yes/2003 Rpt V3
Department of Justice	March 31	Complete	Yes/2003 Rpt V3
Department of Labour	March 31	Complete	Yes/2003 Rpt V3
Department of Learning	March 31	Complete	Yes/2003 Rpt V3
Department of Community Resources and Employment (formerly Department of Social Services)	March 31	Complete	Yes/2003 Rpt V3
Executive Council	March 31	Complete	No
Women's Secretariat	March 31	Complete	No
Crown agencies:			
101000606 Saskatchewan Ltd.	December 31	Note 2	No
101000607 Saskatchewan Ltd.	December 31	Note 2	No
101005716 Saskatchewan Ltd.	December 31	Complete	Yes/2003 Rpt V1
101027956 Saskatchewan Ltd.	December 31	Complete	Yes/2003 Rpt V1
3339807 Canada Ltd.	December 31	Note 2	No
3364381 Canada Ltd.	December 31	Note 2	No
610277 Saskatchewan Ltd.	December 31	Complete	Yes/2003 Rpt V1
617275 Saskatchewan Ltd.	December 31	Complete	Yes/2003 Rpt V1
620064 Saskatchewan Ltd.	December 31	Note 2	No
Agricultural Credit Corporation of Saskatchewan	March 31	Complete	No
Agricultural Implements Board	March 31	Complete	No
Agri-Food Innovation Fund	March 31	Complete	Yes/2003 Rpt V3
Avonlea Holding, Inc.	December 31	Note 2	No

Agency	Year end on or before June 30, 2003	Status at October 31, 2003 ¹	Significant issues reported ²
Battleford International, Inc.	December 31	Note 2	No
Bayhurst Gas Limited	December 31	Complete	Yes/2003 Rpt V1
Beef Development Board	March 31	Complete	No
Board of Governors, Uranium City Hospital	March 31	Delayed	
Business Watch International Inc.	December 31	Complete	No
Canodev Research Inc.	July 31	Complete	No
Carlton Trail Regional College	June 30	Complete	Yes/2003 Rpt V3
Carlyle Holding, Inc.	December 31	Note 2	No
Chicken Farmers of Saskatchewan	December 31	Note 1	
CIC Foods Inc.	December 31	Complete	No
CIC FTLP Holdings Inc. (formerly 101012875 Saskatchewan Ltd.)	December 31	Complete	No
CIC FTMI Holdings Inc. (formerly 101012876 Saskatchewan Ltd.)	December 31	Complete	No
CIC OSB Products Inc.	December 31	Complete	No
CIC Pulp Ltd.	December 31	Complete	No
CIC PVF Holdings Inc. (formerly CIC Ventures Inc.)	December 31	Complete	No
CIC Swine Genetics Holdings Inc.	December 31, 2003	Note 3	
CIC Swine Genetics Inc.	December 31, 2003	Note 3	
CIC Swine Genetics NL B.V.	December 31, 2003	Note 3	
CIC WLSVF Holdings Inc. (formerly 101026817 Saskatchewan Ltd.)	December 31	Complete	No
Coachman Insurance Company	December 31	Complete	Yes/2003 Rpt V1
Community Initiatives Fund	March 31	Complete	No
Crown Investments Corporation of Saskatchewan	December 31	Complete	Yes/2003 Rpt V1
Cumberland Regional College	June 30	Complete	Yes/2003 Rpt V3
Cypress Hills Regional College	June 30	Rotational	
Cypress Hills Regional Health Authority	March 31	Complete	Yes/2003 Rpt V3
DirectWest Publishing Partnership	December 31	Complete	No
Dundurn Holding, Inc.	December 31	Note 2	No
Education Infrastructure Financing Corporation	March 31,	Complete	Yes/2003 Rpt V3
Esterhazy Holding, Inc.	December 31	Note 2	No
First Nations Fund	March 31	Denied Access	Yes/2003 Rpt V3
Five Hills Regional Health Authority	March 31	Complete	Yes/2003 Rpt V3
Foam Lake Holding, Inc.	December 31	Note 2	No
Genex Swine Group Inc.	September 30	Complete	No
Government House Foundation	March 31	Complete	No
Grenfell Holding, Inc.	December 31	Note 2	No
Health Quality Council	March 31	Complete	No

Appendix 2

Agency	Year end on or before June 30, 2003	Status at October 31, 2003 ¹	Significant issues reported ²
Heartland Regional Health Authority	March 31	Complete	Yes/2003 Rpt V3
Health Services Utilization and Research Commission	January 31	Complete	No
Hollywood At Home Inc.	December 31	Note 2	No
Hospitality Network Canada Inc.	December 31	Note 2	No
Hospitality Network Canada Partnership	December 31	Complete	No
Information Services Corporation of Saskatchewan	December 31	Complete	Yes/2003 Rpt V1
Insurance Company of Prince Edward Island	December 31	Complete	Yes/2003 Rpt V1
Investment Saskatchewan Inc. (formerly CIC Industrial Interests Inc.)	December 31	Complete	Yes/2003 Rpt V1
Jan Lake Holding, Inc.	December 31	Note 2	No
Katepwa Lake Holding, Inc.	December 31	Note 2	No
Keewatin Yatthé Regional Health Authority	March 31	Complete	Yes/2003 Rpt V3
Kelsey Trail Regional Health Authority	March 31	Complete	Yes/2003 Rpt V3
Law Reform Commission of Saskatchewan	March 31	Complete	No
Liquor and Gaming Authority	March 31	Complete	Yes/2003 Rpt V3
Liquor Board Superannuation Commission, The	December 31	Complete	Yes/2003 Rpt V1
Mamawetan Churchill River Regional Health Authority	March 31	Complete	Yes/2003 Rpt V3
Many Islands Pipe Lines (Canada) Limited	December 31	Complete	Yes/2003 Rpt V1
Melfort Holding, Inc.	December 31	Note 2	No
Métis Development Fund	December 31	Complete	No
Milk Control Board	December 31	Complete	No
MK Telecom Network Holdings Inc.	December 31	Note 2	No
MK Telecom Network Inc.	December 31	Note 2	No
Municipal Employees' Pension Commission	December 31	Complete	No
Municipal Financing Corporation of Saskatchewan	December 31	Complete	No
Municipal Potash Tax Sharing Administration Board	December 31	Complete	No
Navigata Communications Inc.	December 31	Note 2	No
Navigata Holding, Inc.	December 31	Complete	No
Nokomis Holding, Inc.	December 31	Note 2	No
North West Regional College	June 30	Rotational	
Northlands College	June 30	Complete	Yes/2003 Rpt V3
Northpoint Energy Solutions Inc.	December 31	Complete	Yes/2003 Rpt V1
Operator Certification Board	March 31	Complete	Yes/2003 Rpt V3
Outlook Holding, Inc.	December 31	Note 2	No

Agency	Year end on or before June 30, 2003	Status at October 31, 2003 ¹	Significant issues reported ²
Parkland Regional College	June 30	Rotational	
PCF Investments Ltd.	December 31, 2003	Note 3	
Pleasantdale Holding, Inc.	December 31	Note 2	No
Power Corporation Superannuation Board	December 31	Complete	Yes/2003 Rpt V1
Power Greenhouses Inc.	December 31	Complete	Yes/2003 Rpt V1
Prairie Agricultural Machinery Institute	March 31	Complete	No
Prairie North Regional Health Authority	March 31	Complete	Yes/2003 Rpt V3
Prairie West Regional College	June 30	Rotational	
Prince Albert Parkland Regional Health Authority	March 31	Complete	Yes/2003 Rpt V3
Public Employees Pension Plan	March 31	Complete	Yes/2003 Rpt V1
Public Service Superannuation Board	March 31	Complete	Yes/2003 Rpt V1 and V3
Qu'Appelle Holding, Inc.	December 31	Note 2	No
Regina Qu'Appelle Regional Health Authority	March 31	Complete	Yes/2003 Rpt V3
Retx, Inc. (formerly Retx.com, Inc.)	December 31	Complete	No
Rosetown Holding, Inc.	December 31	Note 2	No
Sask Pork	July 31	Complete	No
Saskatchewan Alfalfa Seed Producers' Development Commission	July 31	Note 1	
Saskatchewan Apprenticeship and Trade Certification Commission	June 30	Complete	No
Saskatchewan Archives Board, The	March 31	Complete	Yes/2003 Rpt V3
Saskatchewan Arts Board, The	March 31	Complete	No
Saskatchewan Auto Fund	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31	Note 1	
Saskatchewan Cancer Foundation	March 31	Complete	No
Saskatchewan Canola Development Commission	July 31	Complete	No
Saskatchewan Centre of the Arts	March 31	Complete	No
Saskatchewan Communications Network Corporation	March 31	Complete	No
Saskatchewan Crop Insurance Corporation	March 31	Complete	No
Saskatchewan Development Fund Corporation	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Egg Producers	December 31	Note 1	
Saskatchewan First Call Corporation	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Flax Development Commission	July 31	Note 1	
Saskatchewan Gaming Corporation	March 31	Complete	No

Appendix 2

Agency	Year end on or before June 30, 2003	Status at October 31, 2003 ¹	Significant issues reported ²
Saskatchewan Government Growth Fund Ltd.	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Government Growth Fund II Ltd.	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Government Growth Fund III Ltd.	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Government Growth Fund IV Ltd.	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Government Growth Fund V (1997) Ltd.	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Government Growth Fund VI Ltd.	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Government Growth Fund VII Ltd.	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Government Growth Fund VIII Ltd.	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Government Growth Fund Management Corporation	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Government Insurance	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Government Insurance Superannuation Plan	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Grain Car Corporation	July 31	Complete	No
Saskatchewan Health Information Network	March 31	Complete	No
Saskatchewan Health Research Foundation	March 31	Complete	No
Saskatchewan Heritage Foundation	March 31	Complete	No
Saskatchewan Housing Corporation	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Indian Gaming Authority Inc.	March 31	Complete	Yes/2003 Rpt V3
Saskatchewan Institute of Applied Science and Technology	June 30	Complete	No
Saskatchewan Lotteries Trust Fund for Sports, Culture and Recreation	March 31	Complete	No
Saskatchewan Opportunities Corporation	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Pension Annuity Fund	March 31	Complete	No
Saskatchewan Pension Plan	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Power Corporation	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Property Management Corporation	March 31	Complete	Yes/2003 Rpt V3
Saskatchewan Pulse Crop Development Board	August 31	Note 1	
Saskatchewan Research Council, The	March 31	Complete	No
Saskatchewan Sheep Development Board	September 30	Note 1	
Saskatchewan Telecommunications	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Telecommunications Holding Corporation	December 31	Complete	Yes/2003 Rpt V1

Agency	Year end on or before June 30, 2003	Status at October 31, 2003 ¹	Significant issues reported ²
Saskatchewan Telecommunications International, Inc.	December 31	Complete	No
Saskatchewan Telecommunications International (Tanzania) Limited	December 31	Note 2	No
Saskatchewan Trade and Export Partnership Inc.	March 31	Complete	No
Saskatchewan Transportation Company	December 31	Complete	Yes/2003 Rpt V1 and V3
Saskatchewan Turkey Producers' Marketing Board	December 31	Note 1	
Saskatchewan Valley Potato Corporation	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Water Corporation	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Watershed Authority (formerly Saskatchewan Wetland Conservation Corporation)	March 31	Complete	Yes/2003 Rpt V3
Saskatoon Regional Health Authority	March 31	Complete	Yes/2003 Rpt V3
SaskEnergy Chilean Holdings I Ltd.	December 31	Complete	Yes/2003 Rpt V1
SaskEnergy Chilean Holdings II Ltd.	December 31	Complete	Yes/2003 Rpt V1
SaskEnergy Chilean Holdings Limitada	December 31	Complete	Yes/2003 Rpt V1
SaskEnergy Incorporated	December 31	Complete	Yes/2003 Rpt V1
SaskEnergy International Incorporated	December 31	Complete	Yes/2003 Rpt V1
SaskEnergy Mexican Holdings Ltd.	December 31	Complete	Yes/2003 Rpt V1
SaskEnergy Nova Scotia Holdings Ltd. (aka 6019021 Canada Inc.)	December 31	Complete	Yes/2003 Rpt V1
SaskPen Properties Ltd.	December 31	Denied Access	
SaskPower International Inc.	December 31	Complete	Yes/2003 Rpt V1
SaskTel Data Exchange Inc.	December 31	Note 2	No
SaskTel Holding (Australia), Inc.	December 31	Note 2	No
SaskTel Holding (New Zealand) Inc.	December 31	Note 2	No
SaskTel Holding (U.K.) Inc.	December 31	Note 2	No
SaskTel International Consulting, Inc.	December 31	Note 2	No
SaskTel Investments Inc.	December 31	Note 2	No
SaskTel New Media Fund Inc.	December 31	Note 2	No
SecurTek Monitoring Solutions Inc.	December 31	Complete	No
SecurTek Partnership No. 3	December 31	Note 2	No
SecurTek Partnership No. 4	December 31	Note 2	No
SecurTek Partnership No. 5	December 31	Note 2	No
SecurTek Partnership No. 6	December 31	Note 2	No
SecurTek Partnership No. 7	December 31	Note 2	No
SGC Holdings Inc.	March 31	Complete	No
SIG CANADA Insurance Services Ltd.	December 31	Complete	Yes/2003 Rpt V1
Shellbrook Holding, Inc.	December 31	Note 2	No
Southeast Regional College	June 30	Rotational	

Agency	Year end on or before June 30, 2003	Status at October 31, 2003 ¹	Significant issues reported ²
St. Louis Alcoholism Rehabilitation Centre Inc.	March 31	Complete	No
STI Communications Pty Limited	December 31	Note 2	No
Sun Country Regional Health Authority	March 31	Complete	Yes/2003 Rpt V3
Sunrise Regional Health Authority	March 31	Complete	Yes/2003 Rpt V3
Swan Valley Gas Corporation	December 31	Complete	Yes/2003 Rpt V1
Tappedinto.com, Inc.	December 31	Note 2	
Teachers' Superannuation Commission	June 30	Complete	Yes/2003 Rpt V1
TecMark International Commercialization Inc.	March 31	Complete	No
Tisdale Holding, Inc.	December 31	Note 2	No
TLW Holdings Inc.	December 31	Note 2	No
TransGas Limited	December 31	Complete	Yes/2003 Rpt V1
Unity Holding, Inc.	December 31	Note 2	No
University of Regina Crown Foundation	April 30	Complete	No
University of Saskatchewan Crown Foundation	April 30	Complete	No
Water Appeal Board	March 31	Complete	No
Western Development Museum	March 31	Complete	No
Workers' Compensation Board	December 31	Complete	Yes/2003 Rpt V1
Workers' Compensation Board Superannuation Plan	December 31	Delayed	
WTC Investments Ltd.	December 31, 2003	Note 3	
Special purpose and trust funds:			
Agri-Food Equity Fund	February 28	Complete	No
Capital Pension Plan	December 31	Complete	Yes/2003 Rpt V1
Cattle Marketing Deductions Fund	March 31	Complete	No
Commercial Revolving Fund	March 31	Complete	Yes/2003 Rpt V3
Correctional Facilities Industries Revolving Fund	March 31	Complete	No
Correspondence School Revolving Fund	March 31	Complete	No
Crop Reinsurance Fund of Saskatchewan	March 31	Complete	No
Department of Community Resources and Employment Central Trust Account	March 31	Complete	No
Doukhobors of Canada C.C.U.B. Trust Fund	May 31	Complete	No
Extended Health Care Plan	December 31	Complete	No
Extended Health Care Plan for Certain Other Employees	December 31	Complete	No
Extended Health Care Plan for Certain Other Retired Employees	December 31	Complete	No

Agency	Year end on or before June 30, 2003	Status at October 31, 2003 ¹	Significant issues reported ²
Extended Health Care Plan for Retired Employees	December 31	Complete	No
Fiscal Stabilization Fund	March 31	Complete	Yes/2003 Rpt V3
Fish and Wildlife Development Fund	March 31	Complete	Yes/2003 Rpt V3
Forest Fire Contingency Fund	March 31	Complete	Yes/2003 Rpt V3
General Revenue Fund	March 31	Complete	Yes/2003 Rpt V3
Highways Revolving Fund	March 31	Complete	No
Horned Cattle Fund	March 31	Complete	No
Individual Cattle Feeder Loan Guarantee Provincial Assurance Fund	March 31, 2004	Note 3	
Judges of the Provincial Court Superannuation Plan	March 31	Complete	Yes/2003 Rpt V1
Learning Resources Distribution Centre Revolving Fund	March 31	Complete	No
Livestock Services Revolving Fund	March 31	Complete	No
Navigata Pension Plan	December 31	Complete	No
Northern Revenue Sharing Trust Account	December 31	Complete	Yes/2003 Rpt V3
Office of the Rentalsman—Rentalsman's Trust Account	March 31	Complete	No
Oil and Gas Environmental Fund	March 31	Complete	No
Pastures Revolving Fund	March 31	Complete	No
Prince of Wales Scholarship Fund	March 31, 2004	Note 3	
Provincial Mediation Board Trust Account	March 31	Complete	No
Public Employees Benefits Agency Revolving Fund	March 31	Complete	No
Public Employees Deferred Salary Leave Fund	December 31	Complete	No
Public Employees Dental Fund	December 31	Complete	No
Public Employees Disability Income Fund	December 31	Complete	No
Public Employees Group Life Insurance Fund	December 31	Complete	No
Public Guardian and Trustee for Saskatchewan	March 31	Complete	No
Queen's Printer Revolving Fund	March 31	Complete	No
Resource Protection and Development Revolving Fund	March 31	Complete	Yes/2003 Rpt V3
Sask 911 Account	March 31	Complete	No
Saskatchewan Agricultural Stabilization Fund	March 31	Complete	Yes/2003 Rpt V3
Saskatchewan Association of Health Organizations (SAHO)	March 31	Delayed	
SAHO Dental Plan Fund	December 31, 2003	Note 3	
SAHO Disability Income Plan – CUPE Fund	December 31, 2003	Note 3	

Agency	Year end on or before June 30, 2003	Status at October 31, 2003¹	Significant issues reported²
SAHO Disability Income Plan – SEIU Fund	December 31, 2003	Note 3	
SAHO Disability Income Plan – General Fund	December 31, 2003	Note 3	
SAHO Disability Income Plan – SUN Fund	December 31, 2003	Note 3	
Saskatchewan Development Fund	December 31	Complete	No
Saskatchewan Health Employees Pension Plan	December 31, 2003	Note 3	
Saskatchewan Legal Aid Commission	March 31	Complete	No
Saskatchewan Legal Aid Commission Client Trust Accounts	March 31	Complete	No
Saskatchewan Legal Aid Endowment Fund Trust	December 31	Complete	No
Saskatchewan Research Council Employees' Pension Plan	December 31	Complete	Yes/2003 Rpt V1
Saskatchewan Snowmobile Fund	March 31	Complete	No
Saskatchewan Student Aid Fund	March 31	Complete	Yes/2003 Rpt V3
Saskatchewan Telecommunications Pension Plan	December 31	Complete	Yes/2003 Rpt V1
SaskPower Millenium Trust Fund	December 31	Delayed	
SaskPower Supplementary Superannuation Plan	December 31	Complete	No
School Division Tax Loss Compensation Fund	March 31	Complete	No
Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission	December 31	Complete	Yes/2003 Rpt V1
Training Completions Fund	March 31	Complete	No
Transportation Partnerships Fund	March 31	Complete	No
Trust Accounts at Court House, Local Registrars and Sheriff's Offices	March 31	Complete	No
Victims' Fund	March 31	Complete	No
Offices of the Legislative Assembly:			
Board of Internal Economy	March 31	Complete	Yes/2003 Rpt V3
Chief Electoral Office	March 31	Delayed	
Children's Advocate, Office of the	March 31	Delayed	
Conflict of Interest Commissioner, Office of the	March 31	Complete	No
Information and Privacy Commissioner, Office of the	March 31	Complete	No
Ombudsman, Office of the	March 31	Delayed	

Agency	Year end on or before June 30, 2003	Status at October 31, 2003 ¹	Significant issues reported ²
Other agencies subject to examination under <i>The Provincial Auditor Act</i>:			
Pension Plan for the Eligible Employees at the University of Saskatchewan, 1974	December 31	Complete	No
University of Regina Academic and Administrative Employees Pension Plan	December 31	Complete	No
University of Regina Master Trust	December 31	Complete	No
University of Regina Non-Academic Pension Plan	December 31	Complete	No
University of Regina Pension Plan for Eligible Part-Time Employees	December 31	Complete	No
University of Regina, The	April 30	Complete	No
University of Saskatchewan 1999 Academic Pension Plan	December 31	Complete	No
University of Saskatchewan 2000 Academic Money Purchase Pension Plan	December 31	Complete	No
University of Saskatchewan Academic Employees' Pension Plan	December 31	Complete	No
University of Saskatchewan and Federated Colleges Non-Academic Pension Plan	December 31	Complete	No
University of Saskatchewan Clinicians' Service-Side Pension Plan	December 31	Complete	No
University of Saskatchewan, The	April 30	Complete	No

Note 1: We audit these agencies in a different way.

In 1999, the Department of Agriculture, Food and Rural Revitalization and our Office agreed that the most efficient way for our Office to examine these smaller agricultural marketing and development agencies would be to work through the Agricultural and Food Products Development and Marketing Council. As part of our audit of the Department, we examine the supervisory work carried out by the Council regarding the financial statements of these agencies and the rules and procedures to safeguard public resources and to comply with legislative authorities.

Note 2: These entities are wholly or partially-owned subsidiaries of Saskatchewan Telecommunications Holding Corporation (Corporation). They are included in the consolidated financial statements of the Corporation. For the year ending December 31, 2002, these entities did not carry out active operations.

Note 3: These agencies were created or became a crown agency after March 31, 2003. For these agencies, December 31, 2003 or March 31, 2004 is their first year-end. The status of the audits of these agencies will be provided in future reports.

Note 4: For 2003, the Department continued to make payments to NewGrade Energy Inc. that were without authority. Our 2001 Fall Report – Volume 2, Chapter 16, contains further information on this matter.

1. "Complete" – the audit was complete at October 31, 2003.
"Delayed" – the audit was delayed.
"Rotational" – for a few sectors (i.e., regional colleges), we carry out the audits of the most significant entities and use a rotational approach for the remainder. We list entities in rotation whose audits were complete at October 31, 2003 as "Complete". We list the other entities as "Rotational".
"Denied Access" – in a few cases, we have not been given access to the necessary information to complete the audits.
2. "No" - no significant issues were reported.
"Yes/2003 Rpt V1" – significant issues were reported in our 2003 Report – Volume 1.
"Yes/2003 Rpt V2" – significant issues were reported in our 2003 Report – Volume 2.
"Yes/2003 Rpt V3" – significant issues are reported in our 2003 Report – Volume 3.

Samples of opinions we form on departments, Crown agencies, and Crown-controlled corporations

Our mission states: "We serve the people of Saskatchewan through the Legislative Assembly by fostering excellence in public sector management and accountability". To fulfill our mission, we examine and provide independent assurance (conclusions) and advice on the Government's management of and accountability practices for the public resources entrusted to it.

We advise the Legislative Assembly on:

- ◆ the adequacy of the Government's management of public resources;
- ◆ the Government's compliance with legislative authorities; and
- ◆ the reliability of the Government's public performance reports.

We focus on the Government as a whole, sectors or programs of the Government, and individual government agencies. We use the auditing standards recommended by The Canadian Institute of Chartered Accountants to form our opinions. The following are samples of our audit opinions.

1. The adequacy of the Government's management of public resources.

I have audited [Crown Agency X]'s control as of [date] to express an opinion as to the effectiveness of its control related to the following objectives.

- To safeguard public resources. That is, to ensure its assets are not lost or used inappropriately; to ensure it does not inappropriately incur obligations; to establish a financial plan to achieve its goals; and to monitor and react to its progress towards the objectives established in its financial plan.
- To prepare reliable financial reports.
- To conduct its activities following laws, regulations and policies related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

I used the control framework developed by The Canadian Institute of Chartered Accountants (CICA) to make my judgements about the effectiveness of [Crown Agency X]'s control. I did not audit certain aspects of control concerning the effectiveness, economy, and efficiency of certain management decision-making processes.

The CICA defines control as comprising those elements of an organization that, taken together, support people in the achievement of the organization's objectives. Control is effective to the extent that it provides reasonable assurance that the organization will achieve its objectives reliably.

[Crown Agency X]'s management is responsible for effective control related to the objectives described above. My responsibility is to express an opinion on the effectiveness of control based on my audit.

Scope

I conducted my audit in accordance with standards for assurance engagements established by The Canadian Institute of Chartered Accountants. Those standards require that I plan and perform an audit to obtain reasonable assurance as to effectiveness of [Crown Agency X]'s control related to the objectives stated above. An audit includes obtaining an understanding of the significant risks related to these objectives, the key control elements and control activities to manage these risks and examining, on a test basis, evidence relating to control.

Conclusion

In my opinion, [Crown Agency X]'s control was effective, in all significant respects, related to the objectives stated above as of [date] based on the CICA criteria of control framework.

Limitations

Control can provide only reasonable not absolute assurance of achieving objectives reliably for two reasons. First, there are inherent limitations in control including judgement in decision-making, human error, collusion to circumvent control activities and management overriding control. Second, cost/benefit decisions are made when designing control in organizations. Because control can be expected to provide only reasonable assurance not absolute assurance, the objectives referred to above may not be achieved reliably. Also, projections of any evaluation of control to future periods are subject to the risk that control may become ineffective because of changes in internal and external conditions, or the degree of compliance with control activities may deteriorate.

2. The Government's compliance with legislative authorities.

I have made an examination to determine whether [Crown Agency X] complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding assets, spending, revenue raising, borrowing and investing activities during the year ended [date]:

(List legislative and related authorities covered by this report. This list must include all governing authorities.)

My examination was made in accordance with Canadian generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, [Crown Agency X] has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended [date].

3. The reliability of financial statements.

I have audited the balance sheet of [Crown Agency X] as at [date] and the statements of income, retained earnings and cash flows for the year then ended. The [Crown Agency X]'s management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the [Crown Agency X] as at [date] and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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